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An Investigation Into The Structure And Governance Of The Social Security Organisations In The Member States Of The Organisation Of Eastern Caribbean States

By

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A thesis submitted in partial fulfilment of the requirements for the degree of

Doctor of Philosophy

University of Warwick, Warwick Business School

October 2001

DEDICATION

This Thesis is dedicated to the memory of my Mother, who has been a source of love, strength, inspiration, guidance and protection all my life.

To my Family, the wind beneath my wings, whose love is responsible for who I am and my one constant in this ever-changing world.

And especially to my Father, who if given half the opportunities I have had, would have gone on to achieve so much more than this.

Daddy, This One Is For You

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List of Abbreviations

ABSSB	Antigua & Barbuda Social Security Board
AFP	Administradoras de Fondos de Pensiones
AIMR	Association of Investment Management & Research
ANG	Anguilla
ANT	Antigua
ASSB	Anguilla Social Security Board
BVI	British Virgin Islands
BVISSB	British Virgin Islands Social Security Board
CAB	Cabinet
CANAEMPU	Civil Servants' and Journalists' Fund in Chile
CARICOM	Caribbean Community & Common Market
CEE	Central & Eastern Europe
CEO	Chief Executive Officer
CISS	Interamerican Conference on Social Security
CON'T	Continued
CPF	Central Provident Fund
CSU	Civil Service Union
DB	Defined Benefit
DC	Defined Contribution
DOM	Dominica
DSSS	Dominica Social Security Scheme
ECCB	Eastern Caribbean Central Bank
EMPART	Social Insurance Funds for Private Workers in Chile
FF	Fully Funded

List Of Abbreviations (Con't)

GCIC	Grenada Chamber of Industry & Commerce
GDP	Gross Domestic Product
GMP	Guaranteed Minimum Pension
GNIS	Grenada National Insurance Scheme
GOV	Governor/Governor-General/Governor-in-Council
GOV'T	Government
GRE	Grenada
GTUC	Grenada Trade Union Council
ILO	International Labour Organisation
IMF	International Monetary Fund
ISSA	International Social Security Association
LEL	Lower Earnings Limit
MCR	Market Capitalisation Ratio
M&H	Mitchell & Hsin
M&S	Munnell & Sunden
MSSB	Montserrat Social Security Board
MIN	Minister
MON	Montserrat
NA	Nurses' Association
NIB	National Insurance Board
NPF	National Provident Fund
OECD	Organisation For Economic Co-operation & Development
OECS	Organisation Of Eastern Caribbean States
PAYG	Pay-As-You-Go

List Of Abbreviations (Con't)

PF	Partially Funded
PSC	Public Service Commission
PWA	Police Welfare Association
SERPS	State Earnings Replacement Pension System
SKB	St. Kitts & Nevis
SKNSSB	St. Kitts & Nevis Social Security Board
SLU	St. Lucia
SLNIS	St. Lucia National Insurance Scheme
SMI	Stock Market Index
SSO	Social Security Organisation
SSS	Social Insurance Service for Blue-Collar Workers in Chile
SVG	St. Vincent & The Grenadines
SVGNIS	St. Vincent & The Grenadines National Insurance Scheme
TR	Turnover Ratio
TU	Teachers' Union
TUC	Trade Union Congress/Council
UEL	Upper Earnings Limit
UF	Unidades de Fomento
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
US	United States of America
VTR	Total Value Traded Ratio
WB	World Bank

ACKNOWLEDGMENTS

The Angel Raphael instructed Tobit and his son Tobias, to "Bless God, utter his praise before all the living for the favour he has shown you. Bless and extol his name. Proclaim before all people, the deeds of God as they deserve, and [*never tire of giving him thanks*]"(Tobit 12:6).

Saint Paul too, admonishes us to give thanks in all things, and this is an attempt to thank all the many persons who accompanied me on this journey. There are so many people who in one way or the other assisted me on this journey and for whom I am most thankful, that it would take an entire dissertation to thank them all by name. Many of them may not even be aware that they have accompanied me on this journey, however, to each and every person, I say thank you and God Bless.

This journey has been remarkable. I have truly enjoyed it, and I am so thankful that I got the opportunity to make it. There were some rocky roads, a boulder or two and periods when I felt completely in a maze, going round and round in circles, however, I never gave up or felt that this journey was not worth making. It has been a journey of self-discovery, growth, sacrifice, learning, joy, love and many blessings. Before setting off, I was convinced that "the finger of God never pointed where his hands have not already made the way," and this journey just reaffirmed that firm belief, and further imbued me with the confidence that God **always** takes care of his children. All we need is "to be still, and know that God is God," (Ps 46:10). To God be the glory, praise and honour.

I wish to thank my examiners, Professor Karl Theodore of the University of the West Indies, St. Augustine Campus and Professor Anthony Steele of the University of Warwick. Professor Theodore took ill just before the viva and was unable to travel to the UK, but he was insistent that the viva would take place, and for that I am truly thankful. Professor Steele could have opted out of examining my work but he too was determined that it would be done and was flexible in his approach and attitude to the changes and I am truly appreciative. I pray God richest blessings, health, peace and love for them both.

The last lap of this journey was like an obstacle race and it was only my faith, the love of my family and the myriad of angels that kept me going to the very finish. Anthony, Murrine, Lisa, Hazel, Marcia and Charmaine played instrumental roles in ensuring that a second copy of the thesis got to Professor Theodore, when we found out that after six weeks the official copy had not arrived in Trinidad. My supervisor has to be given even more praise for he truly went "over and above the call of duty," to ensure that everything worked out well. Ian, I will never be able to thank you enough for your concern and care. His wife, Judy has to also be singled out, for she felt every disappointment, so much so that on the viva day, she was a bundle of nerves awaiting word on the outcome of the viva. The viva was done by videoconference and so many people worked to ensure that it happened. In Trinidad, Althea, Vidia, Donna Marie and all the others at the Economics Department, and at Warwick, Ian, David, Ken and the others in the unit. Many, many thanks.

I wish to say thank you to the Association of Commonwealth Scholarships for granting me a scholarship and thereby enabling me to realise my dream. This

scholarship saved me from taking out a student loan and provided much peace of mind. I want to particularly thank my programme administrators, the human faces behind the ACU, Ms Linda Kent, Ms Anna Gane, Ms Sarah Profit and Ms Rebecca Mellor, for their efficiency, professional and more importantly their understanding and good humour. Please keep up the good work. I wish to also thank the Warwick Business School for providing much needed extra funding in my final year, and especially Ms Jan Woodley and Professor Paul Stoneman, who accepted my application way after the deadline and for really going beyond the call of duty. I wish here to also thank Ms Lesley Inness and Ms Belinda March, secretaries of the PhD Office for always being ready to help.

I wish to thank my supervisor, Professor Ian Davidson. I had a little misgiving when I was informed that Professor Davidson was going to be my supervisor, as he had earlier refused to supervise my work as it was outside his field of expertise, though Mark Freeman, my original supervisor, and Belinda March, the secretary in the Doctoral Office at the time, assured me "he is a nice man!" However, in our very first meeting, all misgivings evaporated. My area is really not his area of expertise, but his brilliant and incisive mind could get right to the heart of the matter. Whenever I tell him that he is a genius, he laughs, but he really is. He told me that "no one got a PhD without writing," and how right he is!!! He really got me to hone in on my writing skills by his incessant demands of "Why is this important? So What? Why should I continue to read this? This needs more 'punch,' Blah! Blah!" On the rocky patches and when I got a bit impatient with the process and with him, he reassured me that this was part of the process and he was confident that I had a story worth telling. I hope I have done him proud. I wish to also thank his wife, Judy, who towards the end of the journey could recognise my voice from the first hello and his daughter, Iona, for having to share their family time with my dissertation.

I got tremendous support from the Accounting and Finance Department, in particular Dr Nick Webber, Mrs. Rhona McDonald, Mrs. Sue Cox, Mrs. Khally Dulai and especially Ms Pat Sullivan, without whom I would be still floundering at sea, though this was a journey by road!

My funding from the ACU was a God sent, however, given that I was not a teenager or one without financial obligations when I embarked on this journey, I had to find other sources of finance. I wish here to express my sincerest appreciation to Dr. Margaret Lamb of the ACUFIN Department of the Warwick Business School for giving me a job as a tutor in Accounting and Mr Paul Cashian and Dr Maxine Robertson, then of the Coventry Business School for the job as a part-time lecturer in Human Resource Management at that institution. During my two years of teaching at these institutions, many people crossed my paths and I wish to say thank you to all in particular my students. At the Coventry Business School, I wish to single out Ian Webster, the "all-rounder" in the office and Ms Vivienne Longue for friendship.

In this vein, I wish to thank the Roseau Cooperative Credit Union, particularly Mr Aylmer Irish and Ms Verlie Shaw, The Royal Bank of Canada, St. Kitts Branch, especially Mrs Jennifer Clark, for their understanding and the moratoriums granted on my loans during the course of my study. This allowed me the freedom to not worry, especially in my last year, when I had given up teaching. Many, many thanks. For your faith in me, know that you have a customer for life.

I wish to say a big thank you to the staff of the Social Security Department at the International Labour Organisation, in particular Mr. Wolfgang Scholz, Mr. Michael Cichon, Ms Anne Drouin, Mr. Pierre Plamandon and Mr. Rudiger Knop. I wish to also express my appreciation to Dr. Guy Standing and the library staff of the ILO. I say a big thank you to Mr. Warren McGilvray, Ms Christine Niedersüb and the other library staff of the International Social Security Association. At the World Bank, I wish to thank Mr. Robert Holzmann, Mr. Alan Slusher, Mrs Francine Pagsibigan, Mr Thorsten Beck, Ms Christine Gilbertson and Ms Diane Cashman. I wish to thank Professors Olivia Mitchell and Michael Useem of The University Of Pennsylvania for the fruitful discussions on corporate governance in social security organisations. I wish to thank Dr Zelenev of the United Nations, especially for inviting me to sit on the Committee of Experts on Social Protection meeting in South Africa. This experience was not only an eye but also a soul opener.

At the University of the West Indies, Cave Hill Campus, I wish to thank Professor Frank Alleyne for taking the time to read and comment on my work and for his encouragement that " you should not be afraid to argue your position". Dr Emily Dick-Forde for friendship and use of her office during my stopover in Barbados, Monica and Neila for friendship. At the St. Augustine campus, I wish to thank the Economics Department for paving the way for easy access by writing to the library and other offices asking that they facilitate my research, and especially to Dr Althea La Foucade, Marsha Baker, Carlos Thompson, Cheryl Robinson and the others who really took care of me. I also thank the library staff and Ms Joy Mapp at the NIB and Ms Nicole Andrews of the ILO Caribbean Office in Trinidad.

At the Eastern Caribbean Central Bank, I wish to thank Dr. Wendell Samuel, Dr Garth Nicholls, Mrs Jennifer Nero, Ms Allison Phills and the other library staff for making available to me various statistics and documents. Garth has to be singled out for even when I was sure I had exhausted all my "brownie points," I found that I still had more in reserve! I say a big thank you to Pitts for photocopying a lot of the material even if it meant doing it after working hours.

To the many stakeholders in the OECS, trade unions, employers' associations and employers, who at very short notice willingly agreed to share their story and who were so open and honest that they are proof positive that there is much good in this world, I say thank you for allowing me to be the medium by which your voices could be heard. A full list of all persons interviewed is provided in Appendix 13. I however, wish to say special thanks to Mr Justin Francis in Grenada for providing a tour and history lesson of the country, Ms Vela Samuel of the Chamber of Commerce in St. Lucia who untiringly attempted to set up several meetings for me, Dr Phyllis Fleming-Banks who arranged a massage and the masseur (whose name I have unfortunately forgotten) for the best massage which really put my back in order after it all near gave up after four months on the road! Mr Francis Compton and Mr Robert Manning also deserve special mention and thanks. I thank Mrs Maureen Peter, Ms Rita Destouche and Ms Creighton for assisting with the transcribing of the interviews. I thank also Mr Alex Phillip of the British Virgin Islands Statistical Office for the statistical information for the BVI. Mr Cassell, the Chief Auditor in Montserrat deserves special praise, for providing all the early financial statements for the Montserrat Social Security Board. The volcanic crisis caused much disruption and it was no easy feat laying hold of those documents. Many thanks. Mrs Alex Phillips, Clerk Of The Dominica House Of Assembly has to be given special mention for trusting me with the Hansards, while I went to get the relevant sections copied.

How do I thank the directors, staff, board members and the various stakeholders of the social security/national insurance institutions in the Organisation of Eastern Caribbean States? As in "To Sir With Love," if they wanted the moon I would try to reach it, but I would rather they allowed me to give my heart. The Directors of the Scheme have been so supportive of my research and have made available to me research material, statistics, their staff and even office space to facilitate my work. To them, I say a big thank you and I want them to know that without them, the study would not be what it is.

I say thank you to Mr. Timothy Hodge, Director of the Anguilla Social Security Board and his staff. I must make mention here of Mr. Elkin Richardson, who not only organised many of the meetings for me but served as my chauffeur and provided much background information. Elkin, I owe you one! Mr. Lennox Gardner, Director of the Antigua and Barbuda Social Security Board and his staff, in particular, Mrs. Joseph and Mrs. Daphne Minnott. Mrs. Antoinette Skelton, Director of the British Virgin Islands Social Security Board and her staff, in particular Mrs. Yvonne Thomas, Mr. Clarence Faulkner, Mr. Joseph Williams and Mr. Alwon Smith. Ms Janice Jean Jacques, acting Director of the Dominica Social Security Board and her staff, especially Mr Sylvester Mark, Mr. Francis Letang, Mr. Augustus Etienne and Mr Jn. Baptiste. Mr. Ashton Frame, acting Director of the Grenada National Insurance Scheme and his staff, especially Mrs. Janice Thomas, Ms Marcelle Charles and Mr.

Sam. Mr Kenneth Scotland, director of the Montserrat Social Security Board and his staff, especially Mr Jemmott Rawlins and Ms Paulette Ward. Mrs. Sephlin Lawrence, Director of the St, Christopher and Nevis Social Security Board and her staff, especially Ms Paulette Eddy, Mrs. Dianne Holdip, Mrs. Sonia Edwards and Ms Angela Liburd. Ms Emma Hypolite, Director of the St. Lucia National Insurance Scheme and her staff especially Mr. Louis Augustin, Mr. Lincoln Mathurin and Mr. Khalicharan. Mr. Reginald Thomas, Executive Director of the St. Vincent and the Grenadines National Insurance Scheme and his staff, in particular Mrs. Betty Medford, Mr. Richard Williams and Ms Donette Arundell. I wish to also thank here, Mr. Hudson Savarin, former Director of the Dominica Social Security, who always responded to my calls for assistance.

I wish to singly out Mrs Jennifer Astaphans, Mrs Jennifer White, Mrs Edith Bellot-Allen and Mr Vernon Shaw for speaking and acting on my behalf when it mattered. Many, many thanks.

Friends add colour to our lives and are the family we choose and I say thank you to all my friends, those near and far, those who I talk to regularly and those who we speak just once in a while, those who though we have not communicated or seen each other in years, are always in my heart and have me in theirs. It is not possible to name everyone here, but you know who you are. My friends, I give thanks for you daily and I ask God to keep you in the palm of his hands, guiding, protecting, blessing, loving and lighting the way.

On this journey I reconnected with some childhood friends in Tortola, whom I had not seen and spoken to in more than 16 years in some cases and definitely at least ten in all the cases, and yet when we met, it was like we had seen each other just the day before. I tell you this is what true friendship is: loving even in absentia, and just like good wine, getting better with age. Orine, Loftus, Miriam, Evans, Eluid, Centura, I love you my dearest friends. Lyndon, Julia & Shalyn added to the joy on this stop.

While on the fieldtrip in the Caribbean, I stayed by several friends who made me feel so at home, that for once in my life, I felt completely at ease at homes other than family. Every act of kindness weaves throughout the tapestry of our lives and these people who I will mention next will have blessings forever because of their kindness. Just as an elephant never forgets, I will never forget these acts of kindness. I say thank you to Jennifer Astaphans, for putting me up in St. Lucia. I felt so at home, that I took over the entire house!! Marcia, who keeps me in tune with the spirits and Mom Burrowes, whose faith is an inspiration provided shelter on the second stop in Barbados. Thankfully, I only stayed four days, for I was fed with so much love that any longer, I would become an elephant!!! Then unto to Lisa, Roger and Gaby in Trinidad. These three deserve special, special thanks for we had met only once before, but you would never have known had I not told you! Then the next stop took me to Michelle and Telbert in St. Vincent who put up with me for two weeks and stored my stuff for an extra one, while I went off to Germany to attend a conference. I made them late on most mornings but not a word of complaint. They also "threw" me a bash that was worthy of any banquet. I have to mention here Michelle's Mom, Ms Steele and her sister Andy, Jerry, for looking out for me, Wayne and Descima, my Warwick buddies who took me sightseeing and made me late for my appointment with the Board Chairman! I have to say sincerest thanks to Mr. Creighton, Chairman of the NIS Board in St. Vincent who rescheduled the appointment, what a man! Then to Grenada, a special thank you to Mrs. Cheryl Fletcher and her Mom, who arranged my stay and got me a much-reduced rate for my accommodation, and Mr Campbell for friendship and those wonderful breads. I say thank you to Merrill and her husband for renting me the beautiful apartment at such a good price. It was on the beachfront, and for the first time on this trip, I was able to indulge in a little sea bathing! So you see, contrary to what most thought when they heard I was off to the Caribbean for five months, I was not sipping pina coladas on the beach everyday!! In St. Kitts, my friend Susan provided not only her home but also her brand new Honda CRV, which made moving around so much easier. In Anguilla, my cousin Vandalyn, her husband Pat and family, Esther, Leroy, Vandalyn, Vernice, Licie, Shantelle surrounded me with love, and mangoes! In Tortola, I was completely at home with my friend Roseann, and the reunion with my childhood friends made this a very special stop. Then on to the last legs in Antigua and Montserrat. In Montserrat, Flo not only provided warmth and friendship but arranged the meetings, collected most of the information and just smoothed the way. I say thank you also to Pat for her support and friendship. In Antigua, Asman, Janet and Jaleel provided the needed encouragement and tranquillity to keep me going to the end.

Some of my friends I have met on this journey, and they have been true companions. They include Donna, my friend, housemate and source of much laughter; Tony, a gentle soul with a midas touch in the kitchen! Edgar, for looking out for the entire Caribbean community on campus, Maura for just being Mau; Kala, my crazy Jamaican sister, with whom there is never a dull moment, Katia, who waited on the

Viva day, Maureen, Ivan, Anupama, Sanjay, my Lakeside flatmates, Feda, who is like a sister. Hazel joined me on the journey in almost the closing stages and her presence was truly divine inspiration, for it was her idea to get the thesis to Professor Theodore by a BWIA steward that really sowed the seeds which led to the thesis reaching him with enough time to prepare for a viva in December. Hazel, many, many thanks. To all the Caribbean Riddim members, especially the founding members, for providing the Caribbean warmth and love here in cold Britannia!

There have been friends who've been there for the long hauls and always: Karen, my best buddy from third form in high school and on whom I can always count on. The bouquet of twelve long stem roses to mark my birthday this year was a confirmation of the message that "it has pleased The Father to give me good things," Thank You. Roseann, who has never allowed our flames of friendship to die, Eleanor, for remaining the same, Girlie, my source of laughter, madness, love all bundled in one, Rosebud, who never fails to bring joy to my heart, Miglena, my teacher on anything related to opera, classical music and the theatre; Barenboim was a real birthday treat! Miriam, for just being larger than life, Rosie, for always being in my corner, Eddie, for just being Eddie, Yvonne for reminders to "walk in your destiny". Rawle, Stephie & Carl for friendship, Ms Laf for the best coconut bread that reassures that all will be okay, Tessa, for her radiance and optimism, Dr. C, for encouragement, Dianne, Betty, and Mrs. R for showing that distance does not diminish friendship. Little M, Sandra, Novella, Dawn, Mrs Mills and Othine for friendship. Aunty Emmo, for faith in me and for always preparing my special meals on the day I return home. Arthur, Sheba, Nestor and his family for unconditional love and friendship. FEJ always tells it as it is and can always bring a smile to my heart no matter the situation.

Clare, for love, always being there and who I can call on at anytime, Ghandi, her husband, and my four little children, Rajiv, Raschida, Louise & Raffiq, whose continuous demands, "Aunty, when are you coming home?" served to keep me focused on my goal. Susan, for loyalty, unwavering friendship and faith.

My friends in the Ministry, especially Father Celsus Auguiste, Father Frank Powell, and Sister Janet Obiru for friendship, constant prayers and love. On the last leg of the journey, when a bit of frustration was setting in, Fr. O's inspired words "hey hold on, the closer it gets the more difficult it will seem, its only a trick of the enemy," sure served to put things in perspective.

George deserves a paragraph just for him. We often say to people "Whatever would I do without you?" and many times, we could do what we did without them easily. But for George, when I ask that question, the answer is I would have found it so much more difficult without you. George has been a pillar of strength, an encourager and motivator, a shoulder to lean on and in short, George is family. We have been through it all: the good times, the bad times and the downright horrible times, and our friendship has stood the test not just of time and distance, but circumstances. George K, from my heart to yours, many, many thanks.

My family is God alive to me. The Lord knew that I would need a very special family to bring me up and surround me with the love to ensure that I did his work, and he chose this one. I would not trade them for all the riches of this earth. My family is my biggest fan club, they envelope me with love and have so much faith in me, that sometimes, I have to remind them that I am only human! Two songs epitomise my

relationship with my family: they are "the wind beneath my wings" and "I am everything I am" because they love me.

Daddy, Elkin Bernard has always stressed the importance of education and excellence and instilled a faith that the only limitations we face are the ones that we create ourselves. He did not think that graduating from the University of the West Indies with first class honours was anything special which needed to be rewarded with a gift!!! Let's see whether he believes this achievement warrants a small token of recognition!!! Throughout this journey, his parting words at the end of each phone call was "Val, remember to reach for the stars and let my love surround you. I love you."

Connie, my sister-mother, who truly made me into who I am. She characterises unselfish love and giving and taught me to do everything I did with everything I had, and if I could not do that, then I should not do it. She is the one who reminds me of the "diction thing" and I know that she is always in my corner. My family says that I am just like her, and so I guess that's why we sometimes don't see eye to eye, but through all disagreements, one thing that is never in doubt, is the love we have for each other.

Eluid, my other father, for love, care, unselfish giving and for demonstrating that we express our love not so much by what we say but by what we do and how we do it. His words of advice when I was leaving for my first degree in 1985, "Valda, the only place where success comes before work is in the dictionary," continues to serve me well.

Cleo, my link to the family in Europe, who loves me unconditionally and who has opened many doors for me at the ILO. Throughout the journey, she provided regular phone calls just to "see how thing are going", books, material, home and good old family time. Isla has to get special mention here, for she is part of the family, and she treats me like her sister. Thanks Isla for all those special things you do to make my stay in Geneva so much fun and so full of love. Doumbia never tires of teasing me about the husband; now that this journey is over, maybe the husband will be part of the next!

Mayor, my eldest brother who is so proud of me and who has been waiting for graduation day for about a year now. The end is near and soon that day for which he has long so much for is at hand.

Edgar, the world's handsomest brother who has a heart of gold, and who provides inspiration to be strong and to keep to my goals.

Athenia, my crazy, crazy sister, for whom Frank Sinatra sang the song, "I did it my way!" She loves and gives with all her heart and asks for nothing in return. She has kept my hopes alive and has furnished me with all sorts of material to keep my heart, mind, body and soul all in harmony.

Josephine, the example of unconditional love and giving. She made sure that I never forgot, (as if I could!) that we are family and that family looks out for each other. She keeps spoiling me and I have to often say to her, "No Joan, save your money!" She also gets mad with me for thinking that "she is older than me." Like Cleo, she has provided the family in Europe.

Catherine, my number one fan in the world. The most excitable person I know who can make the most mundane thing the most exciting, most important and worthy to be praised!! I have to keep saying to her "Carn, you are too silly, stop!" Towards the end of this journey, she took over the conversion of the Excel Appendices into Word, a most tedious and time-consuming task, with such enthusiasm and joy all because she loves me. Thank you Carnos! Jean Claude understands the importance of family and knows how much Catherine and I mean to each other and deserves many, many thanks for suggesting that Catherine "walk the final walk" with me on this journey. We did not hesitate in "running" with that suggestion!

Yolanda, Eddie and Harvey believe in me and that faith keeps me going on. Shirley deserves special mention here for her love and kindness.

My nieces and nephews are my children to whom I have not given birth. They provide me with so much joy, laughter, love, motivation to excel and a little bit of heartache to make this real. Sekani, Kondwani, Anya, N-neka, Kenton, Kerry, Pernella, Yannick, Gem, Junior, Pat, Zani, Zane, Cory, Bassi, Zienna and Kyla, I love you.

The rest of my family especially my cousins in the UK, especially Jeanne, Andrew, Carla and Charmaine and Aunty Vonie for always enveloping me with love.

Mama, Ilma Veronica died when I was six, however, she has never left me. She is my guardian angel and her presence in my life is as real as if she were alive. Mama, I say thank you for being my guide, inspiration and angel. Julie, Clement and Nora are my siblings who have also gone onto the great beyond, and they too are always in my heart.

Finally, to God, for choosing me to undertake this work, I give all the praise, glory and honour. I thank him for all his blessings, angels, love, direction and peace that surpasses all understanding. This has been the period when I was the least financially secure, yet I never went without and it was the time when I was most secure in my heart, soul and peace of mind. A real affirmation that I am worth more than the ravens, who neither sow nor reap, yet God takes care of them, how much more will he take care of me (Luke 12: 24). What a mighty God I serve. Amen.

DECLARATION

This dissertation has been written by me, Valda Frederica Henry and has not been submitted for a degree at any other university.

The Following Papers have been published in the ILO Working Series on Social Protection:

The Importance of Social Security Reserves And Their Investments For Economic Development (2000), in A. Drouin & P Plamondon (eds.) "Issues in Social Security Financing In The Caribbean," *Issues in Social Protection*, Discussion Paper No. 8, International Labour Office, Geneva.

Multi-Tier Social Security Systems; Sweden, Uruguay & Chile (2000), in A. Drouin & P Plamondon (eds.) "Issues in Social Security Financing In The Caribbean," *Issues in Social Protection*, Discussion Paper No. 8, International Labour Office, Geneva.

The Following Papers have been Presented at Conferences/Meetings:

Social Security At The Cross Roads: A Look At The Caribbean (2000) *Social Security In The Global Village,* International Social Security Association, Helsinki.

Practical Approaches In Resource Mobilisation For Social Protection (2000) *Coping In Dire Circumstances: Traditional And Modern Schemes Of Social Protection In The Context Of Development,* United Nations Expert Group Meeting, United Nations, Cape Town.

The Following Paper Was Commissioned by The International Labour Organisation:

The Changing Character Of Governance Of Social Protection In The English Speaking Caribbean (2001) International Labour Organisation, Geneva.

There Is No Lasting Peace

Without Social Justice

There Is No Social Justice

Without Social Security

There Is No Social Security

Without Sound Financing

(International Labour Organisation's International Financial And Actuarial Service (ILO FACTS), November 26, 1998)

There is No Sound Financing

Without Good Governance

There is No Good Governance

Without Persons of Integrity

ABSTRACT

Social security systems have come under attack with claims that they negatively impact savings, capital formation and the labour supply. This, together with the near-bankruptcies of some social security systems have led to a series of reforms, including the privatisation of the system with the assignment of individual accounts to contributors. There have, however, been little efforts in isolating the cause of the failure of the social security systems and in the identification of the factors which may enhance performance. It is this gap, which this study attempts to fill by investigating the relationship between governance, performance and administration of the social security systems by addressing the key question *"How do governance factors impact on the performance and administration of social security systems in the Member States of the Organisation Of Eastern Caribbean States (OECS)?"*

The success of any study is crucially dependent on the quality of the data, and one of the advantages of this study is the ease of access to not only the primary data but also the senior social security stakeholders in the OECS. The homogeneity of the systems is also an advantage for any differences will be more sharply put in focus. A triangulation method combining multivariate analysis using panel data compiled for this study and interviews with policy makers and senior officials in the social security system in the OECS will be employed to address the key question of this dissertation. The interview analysis is important for governance is not only what it is, but also very importantly what it is perceived to be and the analysis provides the context for understanding the governance relationships in the OECS.

The main findings of the study are that autonomy and independence of the social security organisations, accountability, transparency, diversification of the investment portfolio, professional expertise, partnership-building among the stakeholders and involvement of the plan participants at the board level are important in enhancing the performance and administration of the social security organisations. The results of the analysis also suggest that it is important to ensure that the persons chosen to represent the plan participants at the board level are persons of integrity with the requisite qualifications and qualities.

This study, it is hoped will inform and lead to a re-examination of the reform debate to include the role of governance in the reform and sustainability of social security organisations worldwide.

CHAPTER ONE - INTRODUCTION

1.1 Research Question

The purpose of this dissertation is to investigate the relationship between governance and performance of social security organisations. The key question to be addressed is "how do governance factors impact on the performance and administration of social security systems in the Organisation of Eastern Caribbean States (OECS)?

Bismarck introduced the first social security system in 1898 in Germany, which provided for the replacement of income to the worker or his dependants in the event of certain contingencies, such as sickness, death or old age. The system catered principally for the employed person, and served as a benchmark for the introduction of social security systems in other places.

Beveridge in 1942, in reviewing the social security system in the United Kingdom, made some recommendations, which would not replace the Bismarckian system but enhance it. Beveridge recommendations acknowledged that workers were not the only class needing protection from contingencies, but everyone needed protection. And so by advocating universal coverage, Beveridge changed the nature of the social security system. He placed greater emphasis on solidarity between persons and on redistribution, as workers were the ones who contributed to the system, but everyone, including the unemployed, benefited.

This principle of universal coverage is the major contribution of Beveridge to social security and has influenced the evolution of social security worldwide. However, it is also one of the main factors leading to calls for the reform of social security systems, on the grounds that it leads to perverse redistribution and a decline in savings and capital formation.

In recent years the calls for reform have been relentless and have given rise to what Aaron (1982) called "a growth industry for economists in the United States." It is, however, arguably, not only for economists in the United States, judging by the volume and speed with which papers on social security are written by researchers in other parts of the world. In his seminal paper Feldstein (1974) attacked the social security system in the United States and argued that the system led to a reduction of national savings and economic growth. He subsequently called for the funding and privatisation of the system and for contributors to manage their individual accounts (Feldstein, 1976, 1997). This would provide coverage only for workers, as the unemployed would have no contributions that could be managed. It did not matter that Leimer & Lesnoy (1982) proved that there was a programming error and that Feldstein's (1974) estimations were wrong. The calls for privatisation continued unabated.

Then in 1981, the Chilean social security system which was on the brink of bankruptcy as a result of mismanagement (Mesa Lago, 1990) was privatised. Chile thus became the first country in the world to take such action. This increased the calls for the privatisation of social security systems, and when the World Bank joined the fray with the publication of its seminal book "*Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth*," in 1994, the calls reached feverish level. The World Bank argued that social security led to a decrease in savings, perverted redistribution and that government management was inefficient. It recommended the privatisation of social security systems and the establishment of three main pillars of support. The World Bank declared its way the "[*correct way]*" (Holzmann, 2000a) and began not only recommending but also playing a vital part in the privatisation of social security systems in other parts of Latin America and Eastern Europe.

In the meantime, opponents, many associated with the International Labour Organisation and the International Social Security Association, joined the debate and argued that it was the responsibility of the State to provide for its citizens as espoused in the United Nations Human Rights Declaration of 1948 and by the various ILO Conventions on social security. The "war" continued unabated for many years, with each side keeping to its ideological stance. It is only in recent times, from about 1999, that both sides have started giving ground and recognising that there is some validity in both their arguments. The World Bank, while still arguing it's way is the correct way, agrees that there is need to provide some basic protection for all citizens and the ILO agrees that the individuals have a responsibility to provide for their retirement and thus make alternative, complementary provisions to meet the various contingencies.

However, while this debate and "war" waged on, an important element was forgotten in the many reform efforts of the last twenty years. That forgotten element is the ***"governance"*** of the social security systems. While those advocating privatisation blamed the system for reducing saving and encouraging governments to over-spend, little, if any, attention was placed on determining the reasons behind the poor performance and even bankruptcy of the system. The World Bank advocated privatisation on grounds of government's inefficiency, but as evidence in Chile and other countries showed, privatisation is not a cure for inefficiencies. Private firms can be just as inefficient as the public sector.

It is only as the two sides take a more objective view of the issues that attention been given to the governance of the systems. *"Social Security Pensions: Policies and Reform"* edited by Gillion et al (2000) devotes a chapter to the need for governance in social security organisations and outlines principles of good governance for social security systems.

Research on the impact of governance in the public retirement systems in the United States (but not on the social security system there) includes Mitchell & Hsin (1997), Useem & Hess (1999) and Useem and Mitchell (2000), all of whom use data from the PENDAT files to analyse the impact of governance on the performance and portfolio composition of public retirement pension systems. Munnell and Sunden (1999), using the same PENDAT data files, analyse the impact of economically targeted investments on the performance of public retirement systems in the United States, while Srinvas & Yermo (1999) and Srnivas, Yermo & Whitehouse (1999) analyse the impact of regulatory restrictions on the performance of the private pension systems in Latin America. However, no attempt is made to link governance of social security systems to their performance.

The dissertation will attempt to identify and offer explanations as to how governance factors impact on the performance and administration of the social security systems of the Organisation of Eastern Caribbean States (OECS). The OECS is selected for this study because it has largely been ignored in the literature. The systems are also nearing maturity and it would be instructive if methods for enhancing the sustainability of these systems were put forward while there is still time to implement them. The OECS is made up of small states and this study could also offer directions for social security in microstates. Additionally because the systems are defined benefit, partially funded, publicly managed systems, the findings could be relevant for systems of this nature in both the developing and developed world. The homogeneity of the OECS group in terms of structure is also an advantage for any differences will be brought more sharply in focus.

The dissertation argues that governance is a key component in the battle to maintain the sustainability and viability of social security systems, as the board and management confront the many challenges, including that of demography. It also maintains that governance can play a role in reducing the negative macro-economic distortions, often accredited to social security systems.

Panel data will be utilised in identifying the governance factors, which impact on the performance of the social security systems. The work of Mitchell & Hsin (M&H) (1997), which analysed the governance factors impacting on the performance of public retirement systems in the United States, will be used as a starting point for the analysis of this study. The two performance measures, rate of return and stock fund ratio, used by M&H will also be used in this study, but there is a difference in the measurement of these variables. It will also expand on the independent variables used by them. In particular, it will not only look at the percentage of plan-participants but will also among others, look at the appointing authority of the board and director and the dual chairmanship of the board and investment committee. Interviews were also conducted with social security stakeholders in the OECS to provide context, for in order to understand governance it is important to understand the context and operating environment. It also provides the opportunity to give voice to the concerns and perceptions of the social security stakeholders on the functioning of the social security organisations.

The success of any study is crucially dependent on the quality of the data and the ease of access to not only the primary data but also to the ministers, boards, executive directors and senior social security stakeholders in the OECS has been a distinct advantage of this study.

1.2 Outline of The Dissertation

Chapter Two presents the social security literature. As indicated earlier, the social security literature is broad, and in this chapter the focus will be on the transition of social security systems and the reform-taking place in the 1980's and 1990's. The arguments for and against the reform of social security systems and the identification of the major types of reform will be presented in the chapter. A significant portion of the chapter will be devoted to the reform effort in Chile, as this was the first system to be reformed and served as a benchmark for subsequent reform initiatives.

In Chapter Three, the evolution and reform efforts of the social security systems, as well as the provisions for private pensions in the OECS are discussed. The reform initiatives implemented in the OECS will be identified and the role of social security in the economic development of the OECS will be examined. The private pension landscape of the OECS will be discussed and the findings from interviews with insurance companies and social security stakeholders in relation to private pensions will be presented in this chapter.

In Chapter Four the corporate governance literature is presented. The focus is on the role of the board's composition of the board in organisational performance. The corporate governance literature is also analysed in the context of the social security organisations in the OECS.

Chapter Five presents the methodology. A triangulation method combining quantitative and qualitative methods has been employed in the study. Panel data analysis is used to identify the governance factors that impact on performance and administration of the SSO. The dependent and independent variables are described. The methodology and selection of the interviews are also presented. The work of Mitchell and Hsin (1997) on the impact of governance on the performance of the public retirement systems in the USA and the way in which this study builds on that research effort are presented.

In Chapter Six the results from the panel data are analysed and discussed. This chapter reveals that governance does matter and that the board's size and composition affects performance. It also suggests that governance can be used in the fight to make social security systems sustainable and thus enable the organisations to manage their challenges, including the much "talked about" ageing crisis.

Chapter Seven presents the findings from the semi-structured interviews and provides an in-depth analysis of the challenges facing the organisations. It analyses the areas where the qualitative and quantitative methods yield the same results and also where they differ.

The conclusions and policy recommendations appear in Chapter Eight. It highlights the contributions of this study and identifies future research interests.

CHAPTER TWO - REFORM OF SOCIAL SECURITY SYSTEMS

2.1 Introduction

This chapter presents the literature on social security and sets the foundation for the remainder of the dissertation. The literature on social security is immense and this chapter will concentrate on a brief analysis of the evolution of social security and the reform efforts taking place in the area. It will present the transitioning of social security systems from one form to the next and will examine the reasons for the transitions.

In exploring the debate on the reform of social security systems worldwide, the position of the international organisations, in particular the International Labour Organisation (ILO) and the World Bank (WB) will be presented. The reform of the Chilean system will be analysed in-depth, because it was the very first social security system to be privatised and it has served as a benchmark for reform efforts elsewhere. A brief analysis of the second-generation reforms in Latin America and Central and Eastern Europe is also provided as well as a look at the UK pension system.

2.2 Evolution of Social Security Systems

The ILO (1983) defines social security as the protection furnished by a society to its members in the event of certain contingencies, including sickness, old age, survivors, death, maternity, unemployment, industrial accidents and occupational hazards.

Most industrial countries cover the entire range of the contingencies, including medical care. The less developed countries provide a limited range mainly, sickness, maternity, old age, survivors' benefits, and employment injury. Very few developing countries provide unemployment insurance and complete medical care.

2.2.1 Bismarckian Model

The first social security scheme dates back to 1883 under the Bismarck government in Germany. Bismarck introduced three bills between 1883-1889 to protect the working population of Germany against the risks of sickness, disability, accidents and old age. In 1883, the Sickness Insurance Bill was enacted, followed by the Accident Insurance Bill in 1884 and the Old Age and Infirmity Bill in 1889. This tripartite legislation, according to Arthur and Thyer (1995) comprised the first comprehensive system of social insurance instituted by a modern industrial state on behalf of its working population. They argue that this legislation was one of the first to recognise the role of the state in maintaining the economic security of workers; a direct contrast to the laissez faire principle of minimal state intervention.

Bismarck's principles included:

1. Coverage and funding of benefits compulsory on the part of both employers and employees.
2. Benefits calculated and distributed according to the principles of social adequacy and individual equity.
3. Liability for industrial accident insurance resided with the employers, regardless of fault (Arthur and Thyer, 1995).

Arthur and Thyer (1995) argue that while historians often acknowledge Bismarck as the father of the modern welfare state, his role has often been overlooked by social workers. This, they argue, is misguided as, until the tripartite social legislation by Bismarck, state provision for economic security and health of its members had been partial, fragmented and lacked an explicit socio-political rationale. It was Bismarck who first enunciated that the state had an "*obligation*" to provide for the economic security of its working citizens, albeit a shared obligation, requiring contributions from the state, employers and employees to fund and administer the scheme.

Beveridge, in reviewing the social security system, decided that the state's *obligation* was not only to provide income security for the working citizen's but was also an *obligation* for all citizens.

2.2.2 Beveridge Model

In 1942, after reviewing the UK pension system, the Beveridge Report was published. The report raised several themes, and while not all of his recommendations were adopted, his model served as an important blueprint not only for the UK, but also for other countries seeking to establish or reform their pension systems. It was deemed to be the "document, which set the agenda for [the] post-war welfare state," (MacGregor, 1992).

Beveridge based his recommendations on three assumptions that were necessary for success in social insurance. These were family allowances, comprehensive health service and full employment. These assumptions were translated into three principles: universalism, unity and integration. According to Perrins (1992) the principle of universalism "represents Beveridge's essential contribution to the modern notion of social security." The principle of unity should be seen as one of uniformity and equality both of obligations and rights in relation to the various contingencies covered by social security. This is embodied in the flat rate of both contributions and benefits. The principle of integration encompasses the integration of social insurance and social assistance, co-ordinated with policies for health care, guaranteed income and full employment (Perrins, 1992). The purpose of this was to strengthen social security's guaranteed income function on the one hand and maintain or restore people's capacity to work on the other, while promoting full employment and thus securing the financial stability of the system. This, Perrins (1992) asserts, had an ambitious aim to wipe out class distinctions and promote national unity with the aid of the universality and unity of the social security system.

Beveridge foresaw social security as being "first and foremost a plan of insurance - of giving in return for contributions, benefits up to subsistence level, as of right and without means test, so that individuals may build freely upon it," (MacGregor, 1992). His vision for social security can be seen in context of his earlier writings on social insurance. In 1924, in his book "*Insurance for All and Everything,*" he outlined five ways by which the income of a family maybe destroyed permanently or for a time: industrial accident, sickness, unemployment, old age or death of the breadwinner. These he argued are "all threats to security, risks of economic life and disorders endemic in modern society. They are disorders of society rather than of the individual and society has a responsibility to minimise these risks, as they cannot be eliminated altogether". It is this view which framed his recommendation for the collective provision for mitigating the risks and for advocating universal coverage.

To appreciate Beveridge's recommendations, it is important to remember that the time in which he wrote was when the family unit was seen as the central and most important unit of society, with each family unit having a male breadwinner. The predominant view was that society had to protect the earnings of the breadwinner to ensure that he and his family did not suffer from wants, which could lead to crime. While there were those who opposed social insurance arguing that each person was to fend for himself and take measures to protect his earnings, the view that it was a responsibility of society was the predominant view.

Today the view that it is an individual's responsibility to protect his earnings and prepare for life's 'contingencies appears to be in the ascendancy and this has led to calls for the privatisation of social security systems. This call gained momentum in 1974 with the publication of a seminal piece of work by Feldstein, in which he argued that Social Security negatively impacted on savings and capital formation. Privatisation of the Chilean system in 1981 and the publication of the World Bank's "*Averting the Old Age Crisis: Policies to Protect the Old* <u>*and*</u> Promote Growth" in 1994, also served to strengthen the calls for privatisation of the social security systems. There are however still those who see social security as a component of social protection which is a fundamental human right, and which plays a crucial role in fostering social cohesion and in preserving human dignity (Beattie, 2000, Scholz et al, 2000).

These differing positions opened a huge and politicised debate, with proponents and critics on both sides. Neither of the parties wanted to concede any ground to the other side and it is only in more recent years that there has been evidence of a compromise by the parties.

2.3 The Debate on Reforming Social Security Schemes

The call for reform of social security schemes began in the 1960's, though Barr (1987) notes that in Britain, the debate on the impact of national pension systems dates back to 1909. However, the most earnest economic analysis of the impact of social security on the economy, national savings and capital accumulation began in the 1970's, following serious financial problems in the US social security system, the publication of the seminal article by Feldstein in 1974, and the reform of the Chilean social security system in 1981. Consequently, Aaron (1982) notes that "research on social security influences on personal saving, labour supply and the distribution of income, has become major growth industry among economists in the United States." Considering the volume that has been written on social security in the last thirty years, by economists and other writers from Latin America, Europe and elsewhere, it is arguably a growth industry worldwide and not just for economists.

2.3.1 Reasons Behind the Call for Reform

In the early years, the main reasons behind the call for reform was the fact that the opponents of social security believed that social security was an individual responsibility and not that of the State. They argued for the "right to work" or for decent maintenance if there was no work and linked the desire for social security with the demands for minimum wage, family allowances and full employment policy. Ernest Bevin believed that true "social security" would be fostered mainly by full employment and good wage standards rather than by any "social ambulance" scheme (MacGregor, 1992).

The main reasons advanced for the recent efforts at reform of social security systems are the negative impact of social security on savings, labour supply and capital formation, perverse redistribution, inefficiency of public management and the increasing old age dependence (Feldstein, 1974, World Bank, 1994). Feldstein (1974) is credited with re-opening the debate on the impact of social security on savings and capital accumulation (Aaron, 1982, Barr, 1987), and in the next section a brief analysis of his paper is presented.

2.3.2 Feldstein's Seminal 1974 Paper on the Impact of Social Security

Feldstein (1974) in addressing the question of the impact of social security on savings adapted the consumption function used by Ando and Modigliani (1963) by including a social security wealth variable and incorporated this analysis in a life cycle hypothesis framework. He argued that social security by providing income during retirement reduces the amount of saving during the working years. However, he conceded that social security, like pensions, has a dual impact: (i) it reduces personal saving because it substitutes for household assets and (ii) it also increases personal savings because it lengthens the period of retirement over which accumulated assets will be spread. The net effect will thus depend on the relative strength of the two forces. He used time series data from the United States from 1929 to 1971, excluding the years 1941 – 1946.

He differentiated between two measures of social security wealth: gross social security wealth ($SSWG_t$) and net social security wealth ($SSWN_t$). $SSWG_t$ is the present value in year t of the retirement benefits, which could eventually be claimed by all those who are either retired in the labour force or already retired in year t. $SSWN_t$ equals gross social security minus the present value of the social security taxes to be paid by those who are currently in the labour force. Feldstein employed different assumptions about real interest rates and growth rates of real per capita income to construct the values for the $SSWG_t$ and $SSWN_t$. He also included corporate retained earnings as a variable to serve as a proxy for the permanent component of capital gains.

Feldstein's equation estimation was as follows:

$$C_t = \alpha + \beta_1 Y_t + \beta_2 RE_t + \gamma_1 W_{t-1} + \gamma_2 SSW_t$$

He concluded that social security substantially depresses personal savings, as the marginal propensity to consume social security wealth was much higher than the propensity to consume ordinary wealth. He estimated that social security halved the savings rate which would lead to a decrease in capital stock of 38% and a reduction in GNP by 11% to 15% depending on the assumptions made.

Lesnoy & Hambor (1975) argued that Feldstein's work had to be viewed with caution, as the values and statistical reliability of his key regression coefficients were sensitive to both the model specification and the period of estimation. It will be remembered that the $SSWG_t$ and $SSWN_t$ are both subjective measures depending on interest assumptions made. They also argued that factors like the other income security programs – unemployment benefits, health insurance, private pensions – and education have increased substantially and these may have influenced saving behaviour.

Munnell (1977) used the same data set and replicated the Feldstein's study. Her findings were consistent with Feldstein's though the coefficients were significantly lower. Burkhauser & Turner (1982) however, argued that determining the effect of social security on saving in a consumption function leads to an overstatement of social security's negative effect on saving. It was however Lesnoy & Leimer (1982) who found a programming error in the original estimation of Feldstein, and in replicating the model using the corrected data found that social security had a positive effect on savings.

Several other studies have yielded different results with some yielding a positive effect and others a negative and this has led Aaron (1982) to conclude that time series data is not a useful measure to analyse the impact of social security on savings and capital formation. This has however, not stopped researchers using both the consumption model and time series to analyse the impact of social security on savings and capital formation (Kotlikoff & Summers, 1981; Modigliani, 1988; Blundell & Johnson, 1998; Borsch-Supan & Schnabel, 1998; Kapteyn & Vos, 1998; Wise, 1998).

Following the publication of Feldstein's paper, the advent of the Chilean Reform and the publication of the World Bank's seminal book in 1994, many persons have called for the full funding of social security systems (Feldstein, 1976, 1997; James, 1995). Hemming (1998) however, asserts that while the theoretical arguments tend to be consistent with the view that funding will lead to higher savings; the empirical evidence is not conclusive on this matter. He posits that the argument that a pay-as-you-go (PAYG) system will lead to a decrease in national savings ignores a few vital points, namely:

- If PAYG encourages persons to retire early, people will save to achieve full economic independence as they now have to provide for a longer retirement;
- Persons desire to leave bequests to their family will encourage savings;
- Social security does not, in and of itself, provide full retirement income security.

It is often argued that full funding will lead to an increase in national savings but again, the evidence on this is not conclusive. In 1980, Chile registered a 21% gross national saving when the social security was financed on the PAYG basis, while in 1991, following the move to a funded system in 1981, it was 18.8% (Uthoff, 1993). Holzmann (1997) found that there was an increase in national savings and worker productivity following the Chilean reform of its social security system, but attributed most of it to the higher growth rates in the Chilean economy.

Samuel (1993) argues that there is no doubt that national pension schemes in the Caribbean have had a positive impact on savings but the evidence on investment is not as encouraging. He cites St. Rose (1982) who concluded "the schemes have not had a deleterious effect on the growth of savings deposits...and during the period estimated balances of the various schemes amount to 37% of savings deposit balances which means an increase in financial flows." St. Rose (1982) also estimated that during the same period the ratio of investment to GDP declined. This observation, Samuel (1993) argues, highlights the absence of strong linkages between saving and investment in small dependent economies, one possible explanation for this being the investment of these funds by the national pension schemes.

In the reform debates, which ensued following the publication of Feldstein's paper, and the conversion by Chile to its new system, the international organisations have taken positions on both sides of the debate. In the next section the positions of the International Labour Organisation (ILO) and the World Bank (WB), the two international organisations at the forefront of the debate are presented.

2.4 The Position of the International Labour Organisation and the World Bank

The ILO is often regarded as the bastion of workers' and labour rights and the ILO has played an instrumental part in the establishment of social security systems in many parts of the world. The ILO provided technical assistance in establishing social security systems to many countries, including those in the Caribbean, Africa, Asia, Europe, the Americas and even the former East European States. According to Holzmann (2000), when no one else was allowed into the East European countries, the ILO had a presence there. The International Social Security Association (ISSA) plays a leading role in the research efforts on social security and its position on social security is closely identified with that of the ILO. The ILO and ISSA have taken joint positions on various issues, especially with regard to the reforms of social security systems (Gillion & Bonilla, 1992; Beattie & McGillivray, 1995).

The World Bank, the International Monetary Fund (IMF) and the Organisation of Economic Co-operation and Development (OECD) are relative latecomers to the social security arena, with the WB taking the lead in the reform initiatives. The World Bank announced its presence on the social security arena with the publication of the seminal book "*Averting the Old Age Crisis*" in 1994, which documented its position on social security and announced what the WB termed "*the correct way,*" for social security organisation. In the early years the IMF's position was closely aligned to the WB, with the two organisations publishing joint statements on their positions (IMF, 1993), obviating the need to consider the views of the IMF separately.

2.4.1 The Position of the International Labour Organisation

The ILO's position on social security is encapsulated in Conventions 35, 37, 38, 102 and 128. Conventions 35, 37, and 38 of 1933, the Old Age Insurance (Industry etc); the Invalidity Insurance (Industry etc) and the Invalidity Insurance (Agriculture) respectively, recommend that steps be taken to ensure that:

(a) Employers contribute to the formation of the financial resources of the insurance scheme;

(b) The public authorities contribute to the financial resources of the insurance scheme;

(c) The pension scheme be administered by institutions not conducted with a view to profit;

(d) Representatives of the insured persons participate in the administration of all the insurance institutions (Gillion and Bonilla, 1992).

Convention 102 Social Security (Minimum Standards) of 1952 contains recommendations on minimum standards with regards to the main branches of social security: medical care, sickness benefit, unemployment benefit, old-age benefit, employment injury benefit, family benefit, maternity benefit, invalidity benefit and survivors' benefit.

Articles 71 and 72 deals with some common provisions and stipulates that:

(a) The cost of the benefits provided in compliance with this Convention and the cost of the administration of such benefits shall be borne collectively by way of insurance contributions or taxation or both in a manner which avoids hardship to persons of small means and takes into account the economic situation of the Member and of the classes of persons protected;

(b) The total of the insurance contributions borne by the employees protected shall not exceed fifty per cent of the total financial resources allocated to the protection of the employees and their dependants;

(c) The Member shall accept general responsibility for the due provision of the benefits provided in compliance with this Convention, and shall take all measures required for this purpose; it shall ensure, where appropriate, that the necessary actuarial studies and calculations concerning financial equilibrium are made periodically and, in any event, prior to any change in benefits, the rate of insurance contributions, or the taxes allocated to covering the contingencies in question;

(d) Where the administration is not entrusted to an institution regulated by the public authorities or to a Government department responsible to a legislature, representatives of the persons protected shall participate in the management, or be associated therewith in a consultative capacity, under prescribed conditions; national laws or regulations may likewise decide as to the participation of representatives of employers and of public authorities;

(e) The Member shall accept general responsibility for the proper administration of the institutions and services concerned in the application of the Convention.

(f) A periodic payment shall be paid throughout the contingency and in the case of old age benefit; the minimum benefit shall be 40% of the previous earnings of the employee.

Convention 128 concerning Invalidity, Old Age and Survivors' Benefits, 1967 incorporates the revision to Conventions 35, 37 and 38 of 1933. It incorporates many of the requirements of Convention 102. It also stipulates (Article 6) that a Member may take account of protection effected by means of insurance which, although not made compulsory by its legislation for the persons to be protected:

a) Is supervised by the public authorities or administered, in accordance with prescribed standards, by joint operation of employers and workers;

b) Covers a substantial part of the persons whose earnings do not exceed those of the skilled manual male employee.

c) Consists of Periodic payments which shall be paid throughout the contingency and in the case of old age; the minimum benefit should be 45% of previous earnings of the employee.

Both Conventions 102 and 128 allows for Member states to not provide for all the contingencies based on economic ability and also allows for exclusion of some classes of workers, example, seamen, seafarers and public servants. It also recommends a means and income test for benefits and for the exclusion of workers if they are out of state for a prolonged time, though it advocates equality of treatment for all residents be they nationals or not.

These conventions provided the blueprint which the ILO used in advising countries on the establishment of social security schemes. The ILO typically recommended a pay-as-you-go or partially funded defined benefit, publicly managed social security scheme. In most of the cases, it appears that the ILO concentrated on ensuring that there was tripartite management, minimum standards legislation and periodic actuarial reviews. Though the ILO stressed the importance of good governance, the inclusion of "not-for-profit" clause in Conventions 35, 37 and 38, may have served to send a contradictory message and may have led to a misconception that "not-for-profit" is synonymous with "no profit."

This principle of "not-for-profit" may have played a major role in social security schemes not paying much attention to effective management. In Latin America, there is evidence of many of the social security organisations engaging in projects that were not financially viable, but were deemed to be socially desirable or for the interest of workers. This, combined with generous benefits without the corresponding increase in contributions and other factors led to the eventual bankruptcy of many of the Latin American social security systems (Mesa Lago, 1989; Wallich, 1983). This opened the way for the entrance of the World Bank into pension reform, and for its recommendations for a privately managed, fully funded, defined contribution system.

The ILO does not consider a defined contribution system to be a viable social security system as it does not provide a guarantee of a minimum pension for workers.

In the early years, many of the social security systems conformed to the Conventions. With the advent of the reforms, the terms of the Conventions are being violated -

example, with respect to contributions being from both employers and employees, employees being guaranteed a minimum of 40% income replacement and the tripartite nature of the board. This highlights the inability of the ILO to enforce compliance to the Conventions, despite their ratification. This also suggests the need to review the Conventions if they are to remain relevant in the new order of social security provisioning.

The ILO also provided technical assistance in the early years for much of the mandated actuarial reviews. The actuarial reviews do not focus on the efficiency of operations per se, but rather provide an indication of the funding of the organisation. Actuarial reviews also study the implications for the reserves and expenses of demographic changes and actuaries usually advice on the need for the increase of contributions and benefits. The reviews usually then conclude with a determination of the "actuarial soundness" of the system for a certain period of time.

This verdict of "actuarial soundness" without much regard for the overall efficiency of operations may foster a culture of complacency. In 2001, when some social security systems in the Caribbean are beginning to show signs of financial stress, some board members and management still take comfort in the fact that the last actuarial review concluded that the system was "actuarially sound." One social security director remarked that the actuarial review is his "second bible". Reliance on a "second bible" that provides only a partial analysis of operations may prove to be detrimental. This, may be one of the reasons why another director commented that "some of the problems we are now experiencing are because of the recommendations made by the actuary, which were implemented." Most of those recommendations pertained to increases in the level of benefits and expenditures. However, governments do not always implement the recommendations made by the actuaries, especially with regard to increases in the contribution rate.

The ILO, however, is taking measures to address this shortcoming. In a recent communication it has advised on the inclusion of technical observation on "possibilities to improve governance and management of the scheme (in our case primarily financial governance and management, i.e., staff training, improved procedures and controls for investments, statistics, accounting, budgeting)."[1]

2.4.2 The Position of the World Bank

The World Bank has been at the forefront calling for not just the reform of social security but for implementing what they deem to be the "*correct way,*" a dominant second pillar of a fully funded, defined contribution, privately managed fund. The WB argues that there are three main aims of social security and social protection: redistribution, saving and coinsurance. Saving involves income smoothing over a person's lifetime; redistribution involves shifting lifetime income from one person to another and insurance involves protection against the probability that recession or bad investments will wipe out savings, that inflation will erode the real value, that people will outlive their own savings and that the program fails. The World Bank argues that to achieve the goals of a social security system, the three aims have to be managed separately.

[1] Email dated July 6 2001, from Hiroshi Yamabana, FACTNET secretary on the subject, "Important: Conference Conclusions: New Items in Actuarial and Social Budgeting Reports." FACTNET is a

The World Bank (1994) argues that public schemes that combine all three functions are problematic, for both efficiency and distributional reasons. When the systems are young and immature, politicians are tempted to promise generous benefits to the early retirees, without paying attention to the subsequent contribution rates that will be required from later cohorts. This then leads to a situation where the high contribution rates are seen as taxes by the workers and this leads to evasion; strategic manipulation by workers; an increase in the informal sector and unemployment; lower national output; and an increase in early retirees, which reduces the stock of experienced workers. There is however, no empirical evidence to support these assertions about the impact of high contribution rates. These arguments also seem to overplay the consequences of high contributions, as in many instances the social security contributions is seen as a tax on employment, increasing the employers' costs by the rate of contribution (ISSA, 1996). This point is revisited in Chapter Seven.

Evasion, unemployment and growth of the informal sector are more likely to be effects of the economic realities rather than high contribution rates. Usually, high contribution rates are often as a result of economic realities. In Chapter Seven, some reasons for evasion in the OECS are presented. The evidence on the negative impact of social security on national output as discussed earlier is inconclusive.

The WB also argues that the PAYG method of financing separates the benefits from the contributions, produces low costs and large positive transfers to the first covered generations and misses an opportunity for capital market development. To redress the perceived ills of traditional social security systems, the World Bank recommends a

network of actuaries and other professionals working in the social security field established by the ILO three-pillar system to meet the three aims of social protection, that of redistribution, insurance and savings, respectively. The three-pillars comprise:

(1) A first pillar, which could take one of three different forms – a means-tested, minimum pension guarantee to a mandatory second pillar, or a universal or employment-related flat rate. It would have as its main objective poverty alleviation and coinsuring against several risks, and it would be publicly managed.

(2) A second pillar of mandatory savings that would be fully funded and privately managed. Although, it was not directly spelt out, the second pillar is expected to be defined contribution. It could take one or two forms, either individual accounts or occupational accounts. The World Bank noted that mandatory systems required careful regulation.

(3) Voluntary occupational or savings plan to provide extra protection for those who so desire.

This position drew very heavily from the experience of Chile, which had reformed its system in 1981 and had adopted a multi-pillar system, with a big second tier that was defined contribution, fully funded and privately managed. The publication of *Averting the Old Age Crisis* really gave the World Bank a foothold into the social security arena, especially with regard to the reforms of existing systems. This well-written book took a very strong anti-government stance and championed the case for individual responsibility for retirement provisions. The World Bank has been almost on a crusade in recommending and implementing its multi-pillar system approach to

in 2001 for the improvement of actuarial, investment and operating practices of social security systems.

countries in Latin America and Eastern Europe. This is one of the key differences between the ILO and the World Bank.

The World Bank states its position in a forthright manner and presents it as *the correct* way, whereas the ILO relies to a large extent on voluntary compliance with its various Recommendations and Conventions. Even in *Social Security Pensions* (2000) the position of the ILO as to what is considered *the correct* way is not presented. Instead a series of options, some of which appear contradictory are offered. Additionally, while *Averting the Old Age Crisis* was published under the World Bank's name, *Pension Reform* was not published under the ILO's name, but by members of staff, with the usual disclaimer that these were not necessarily the position of the ILO. This may be a minor point, but it transmits an important message concerning the conviction of the organisation to its position. In contrast, the confidence, assertiveness and aggressiveness of the World Bank in putting forward its position, may have been influential in creating the huge role they play in pension reform throughout the world.

The ILO was initially very critical of the multi-pillar approach, especially the heavy emphasis on the second pillar, as it was argued that this placed too much risks on the worker and also exposed the government to unknown liability given the guarantee of a minimum pension (Gillion and Bonilla, 1992; Beattie & McGillivray, 1995). Further criticisms came from Beattie and McGillivray (1995), who in response to *Averting the Old Age Crisis* took issue with the report's assertion that public pension systems have failed both socially and economically, and argued that many of the shortcomings identified with the PAYG systems apply equally, if not more forcibly, to private pension systems. They assert that the strategy advocated by the Bank of dispensing with social insurance systems in favour of mandatory saving plans would result in unacceptable high degree of risks for workers and pensioners, increases in age pension costs and the imposition of a heavy burden on the current generation of workers. McGillivray and Beattie (1995) argue that a more efficient and less disruptive approach to retirement pension would be to focus on measures to rectify design efficiencies and inequities in existing schemes. Another approach may be the determination of the role of governance factors in enhancing operational efficiencies, administration and performance of those schemes.

In more recent times, the ILO has come around to the idea of a multi-pillar system. In *Social Security Pensions: Development and Reform,* Gillion et al (2000) posit that all countries need to develop pluralistic designs and flexible structures for their social security systems, and that to meet the goals of alleviating poverty in old age and providing low-risk retirement benefits, multiple sources of benefits are usually needed. They make different recommendations for developed and developing countries. They argue that the best approach for developed countries can be characterised as a multi-tiered system, with the tiers being determined by their risk and redistributive characteristics. They propose four tiers as follows:

- Tier 1 which is means-tested, financed from general revenues and has as its objective anti-poverty;
- Tier 2 which is PAYG;
- Tier 3 which is mandatory and defined contribution in nature;
- Tier 4 which comprises of voluntary savings and non-pension sources of income.

Gillion et al (2000:18), maintain that this approach is not about a particular number of tiers, but about the recognition that retirement income should be provided from different sources to diversify the risks. To a very large extent, the ILO's recent recommendations are similar to those proposed by the World Bank, with the major difference being in the second pillar. The World Bank is in favour of a mandatory, defined contribution, fully funded, privately managed system, while the ILO favours a mandatory, defined benefit, PAYG, publicly managed system.

There is not a very specific recommendation made for developing countries. They state, "For developing countries with low coverage, priority needs to be given to expanding coverage. This could be done by having special programmes designed for workers in the informal sector, or by having a national programme that includes most workers while only higher income workers are required to participate in a more expensive programme. In order to keep costs low for poor workers, the basic programme could provide only disability and survivors' benefits, or could provide retirement benefits starting at a relatively high age, such as 65 or 70."

Gillion et al (2000) provide no options for developing countries with high coverage, and the recommendation with respect to the "poor workers" contradicts the principle of alleviating poverty in old age. This is the group most vulnerable and most unlikely to have sufficient personal funds to fund their retirement, yet it is this very group for whom the recommendation is made that retirement benefits begin at an advanced age or that only disability and survivor's pension be provided. This does not appear to be in keeping with ILO's goals for social protection systems, its various standards and conventions governing social security and the UN Declaration of Human Rights.

This recommendation is arguably worse than the World Bank's, for under the World Bank's approach, those "poor workers" would at least have some measure of protection, albeit inadequate. This rather shows the wavering stance of the ILO in the face of opposition. Queisser (2000) however, sees this compromise as the adoption of a "pragmatic" approach with the international organisations now aiming at mutual understanding, co-ordination and co-operation in member States and recipient countries. Appendices 1a and 1b present a more detailed comparison of the ILO's and WB's approach to social security reform.

These reforms have resulted in a series of transitions as countries strive to find an optimal social security system, and in the next section, the transitioning process of social security systems is presented.

2.5 The Transitioning of Social Security Systems

The traditional social protection system took one of two forms: the social insurance system as advocated by Bismarck and the social assistance scheme advanced by Beveridge. The Bismarckian system was a contributory system with contributions made typically by the employer and worker, and benefits were usually of a defined nature. The Beveridgian model was usually tax financed, but could also be contributory and the benefits were either means-tested or a universal flat rate was applied. Beveridge favoured the universal flat rate as he felt that any system that provided an opportunity for discretion or withheld benefits if an individual had other means was not insurance (Beveridge, 1924).

There are seven main variations of social security systems arising from these two forms (presented in Table 2.1), though in recent times, notional defined contribution systems were introduced in Sweden and Poland, whereby the financing is still maintained on a pay-as-you-go basis, but in calculating pension benefits a notional interest rate is applied to the contributions made by the contributors, giving it an element of a defined contribution system. Cichon (1999) has likened this system to "old wine in a rather elegant new bottle," as he argues all the purported benefits of the notional defined contribution system can be achieved by a standard career-average earnings-related defined benefit formula, with actuarial reductions or increments which are financed on the basis of a general average premium or constant contribution rate. There are also currently few, if any, publicly managed, fully funded, defined benefit systems. It is however possible to have one more variation, a privately managed, partially funded, defined benefit system. However, to protect the interests of contributors private pension funds are expected to be fully funded, though some private pension funds do become underfunded, thereby in effect becoming partially funded systems. In a recent survey Bacon & Woodrow, a firm of actuaries found that seventeen of Britain's 100 biggest companies have pension schemes that are underfunded by millions of pounds, with one company estimated to be in shortfall of nearly £170 million (The Guardian, August 15, 2001).

Table 2.1
Structure of Social Security Systems

Type/Management	Funding	Definition
Private	Fully Funded	Defined Contribution
Private	Fully Funded	Defined Benefit
Public	Fully Funded	Defined Contribution
Public	Fully Funded	Defined Benefit
Public	Partially Funded	Defined Benefit
Public	Pay-As-You-Go	Defined Benefit
Public	Tax Financed	Flat Rate Benefits

The social security systems in Latin America have undergone three transitions: the first was from a publicly managed, fully funded, defined benefit system to a publicly managed partially funded, defined benefit system. The second has been from a partially funded publicly managed defined benefit system to a PAYG and the third from a PAYG system to a privately managed fully funded defined contribution system. The main reason for the first transition was mismanagement which manifested itself in increased benefits without the corresponding increase in contributions, poor investment decisions and preferential application of the eligibility criteria to favour particular groups. The increasing system dependency only served to exacerbate the problem. In the case of the first transition, there was no deliberate decision to make the transition, and the system became a partially funded system in effect by default as the system gradually became underfunded. The second transition was also as a result of default rather than a deliberate political decision, and was due to political pressure, lack of administrative efficiency, inflation and legal rigidity, caused by contribution rates being fixed in legislation (Mesa Lago, 1989).

In explaining the situation in Chile, Wallich (1983) argues that the change to PAYG was not due so much to a conceptual evolution in thinking about financing, but was the response of the institutions to the difficulties of maintaining their reserve fund intact in the inflationary Chilean environment. In this environment, the investment policies followed by the institutions, and later the investment guidelines codified by the government in 1952 made the inadequate capitalisation of the surplus inevitable. These policies, she argues, had been largely in responses to pressures from affiliates, who wished to see the trusts funds used in a manner which benefited them, being made available to them in the form of loans and mortgages rather than invested in the economy at large.

The third transition in Latin America, contrary to the previous transitions was a result of a deliberate political choice. The PAYG systems had become largely bankrupt and in an effort to reduce the governments' obligations as well as enhance the credibility of the system, the governments opted for a privately managed, fully funded, defined contribution system. Chile became the first country in the world to make that transition, followed by other countries in Latin America and Central & Eastern Europe.

The social security system in United States of America (USA) and Finland made the transition from a publicly managed, fully funded, defined benefit system to a partially funded one as a result of a deliberate political decision. In the case of the USA, it was argued that a partially funded system would be one way of limiting the influence of pressure groups and of safeguarding the economy. It was also argued that a funded system would amass too much funds which would not only give the government too much control in the private sector, but it would also have the ability to distort the financial sector (Tynes, 1996).

In the Caribbean the transition was from a publicly managed, fully funded, defined contribution system to a partially funded, defined benefit system. The main reasons advanced for the change was to offer a more comprehensive package of benefits to employees which would serve to improve their quality of life, especially during old age, and to facilitate economic development. The introduction of the partially funded defined benefit systems was expected to deepen the financial sector (Hansards of the

OECS). This argument is odd given that one of the advantages advocated for moving to a fully funded system is the opportunity for financial market deepening.

In the case of the Central & Eastern European States the transition was from a publicly managed, PAYG, defined benefit systems to a fully funded, private management, defined contribution system. This transition took place after the reunification of West Germany and East Germany, and was mainly a result of high system dependency ratio caused by liberal disability and early retirement eligibility criteria (Fultz & Ruck, 2000). Fultz & Ruck (2000) argue that while PAYG systems are often described in terms of their vulnerability to demographic factors, the problems in the CEE states were caused not by changes in demography but by changes in the labour market. This argument reflects those of Augusztinovics (1999), who argues that in a changing environment, system dependency can be much more strongly affected by employment opportunities than by pure demographic trends. She goes on to argue that the transition economies of CEE may become a testing ground for an unprecedented and harmful divergence between system and demographic dependency.

There appears to be no example of a transition from a tax-financed system to another type of system. Australia provides the best example of a tax-financed system. The system was introduced in the 1890s and this form of financing was chosen because it was argued that a compulsory contributory approach would be bureaucratic and complicated, and would not solve the problems of the non-contributors to the system, example, the sick, the elderly poor and the unemployed. It was also believed that it would be objectionable to "people of British origin," and it would result in higher prices or lower wages as employers tried to offset the costs of the contributions. There have been several reviews of the Australian system, but in every case the recommendation has been the maintenance of the system (Dixon, 1983), though the review in 1988 recommended, in addition, the expansion of the occupational superannuation schemes (Stanton & Dapre, 1998). There has always been a prevalence of occupational pension schemes in Australia, thereby weakening the last argument submitted for the introduction of the tax-financed system. Based on the recommendation of The Social Security Review appointed in 1988, the establishment of occupational schemes became mandatory in 1992 (Stanton & Dapre, 1998).

2.5.1 Evaluation of The Transitions

The experience of those countries which have made transitions suggests that there are different levels of difficulty in making the transitions. It appeared to have been easier to make the transition from a fully funded system to both a partially funded and PAYG systems than in reverse. It also appeared easier to move from a defined contribution system to a defined benefit system than it was to make the opposite move. In a defined contribution system the accrued rights depend solely on the contributions made and the rates of interest earned on that contribution, whereas in a defined benefit system the benefits are dependent not so much on the contributions made, but on factors relating to length of service, the accrual rates granted for each year of service and earnings, among others. This is one of the reasons why recognition bonds or compensatory pensions had to be offered in Chile and the other Latin American countries when the third transition took place.

There does not appear to be any particular difficulty in moving from public to private management except that measures must be put in place to safeguard the contributions of the pension plan members. There appears to be no example of any developed country privatising the core social security program or converting it into a defined contribution system, even if a second tier of personal savings or occupational pension plans are encouraged. A fuller discussion of the recent reforms undertaken in Chile, the other Latin American Countries and the CEE states will be presented later in this Chapter.

In Latin America, the social security systems were first converted from fully funded system to PAYG and are now being reformed into fully funded systems. There were however, two major differences in the return back to fully funded systems. The new systems introduced in Latin America are not only fully funded, but they are defined contribution and privately managed. It is the two latter components, especially the privatisation of the systems that have received most attention, and account for a large part of the reasons why the schemes in Latin America are deemed to have revolutionised social security. There is, however, the other view, that the reforms have abandoned the principles of social security and protection for workers, because of the heavy reliance on the performance of the capital market. The warning to the British workers about the drop in the pension benefits, as a direct result of changes in the economy, suggests that the fear of inadequate pensions is real, particularly in respect of defined contribution schemes (The Guardian, August 16, 2001).

However, it should be pointed out that the only new component of the reforms in Latin America is the private management of the schemes, as fully funded, defined contribution schemes have been in existence in the form of provident funds. The government guarantee of a minimum pension in the event that the pension from the reformed system is inadequate is a new component, only to the extent that this guarantee is dependent on the performance of the schemes in a private setting. This guarantee means that government is partially underwriting the system and in so doing accepting contingent liabilities. The issue of contingent liabilities of these guarantees will be addressed in more depth later in this Chapter.

Private management is also often seen as the harbinger of efficiency, and in the case of Chile, this may have been appropriate, but the management of the scheme does not have to be private for it to be efficient. We have examples of publicly managed schemes, both fully funded and PF that are efficiently managed. Finland, Netherlands and Singapore provide good examples. Finland also presents a case where though, publicly managed, there is no government control and no government interference in the management of the schemes (Herbertsson et al, 2000).

The factor that constitutes the real challenge to workers is not the fact that the schemes are funded or privately managed, but whether the system is defined benefit or defined contribution. It is the defined nature of the contributions that changes the system from one of social insurance to one of individual accounts, though it is often confused with whether the schemes are funded and/or privately managed.

The defined contribution nature of the scheme places the risk of investment and longevity firmly with the worker, as the benefits are unknown. One of the advantages often cited for the defined contribution system is that the contribution is defined and will not change unlike the PAYG system, which is often subject to increases in contribution rates. However, there is a risk that the contributions established now, may be insufficient to provide an adequate pension forty years from now, given inflation and other risks. British workers were warned that maintaining the current contribution rate of 10% in their money purchase schemes (equivalent to defined contribution systems) may see their pensions reduced by half the expected amounts due to the low rates of interest and low inflation (The Guardian, August 16, 2001). The fall in the financial markets in the aftermath of the tragic events in America on September 11, 2001, also underscores the tremendous risks faced by those with defined contribution systems. In the week after the event, the US stock market closed at the lowest level since the great depression of 1929.

Diamond (1998:8) makes the point that a defined contribution system does not require adjustment to avoid insolvency, but it does require adjustment if it is to adapt to changing circumstances. He asserts that without any adjustments, as mortality rates fall, a defined contribution system has shrinking replacement rates, while a defined benefit system has growing revenue needs. He expounds that even an indexed defined benefit system will face circumstances that change beyond what was built into the indexing, and if these adjustments are done well, a defined benefit system is economically more efficient at spreading risks than a defined contribution system. However, he maintains that the quality of the political adjustment of the system is central to the comparison of different systems. The quality, he contends, of both systems as providers of retirement incomes depends on political responses in terms of frequency and quality of adjustments. Given the importance of the reforms in Chile on the evolution of social security systems, it is now appropriate to look at these more closely.

2.6 The Evolution of the Chilean Pension Scheme

Many writers have traced the evolution of the Chilean pension system (Queisser, 1998; Wallich, 1983; Mesa-Lago, 1989; Barrientos, 1993; AGAFP, 1994). During 1924 - 1925, the Social Insurance Service (SSS) for blue collar workers, the Social Insurance Fund for Private Employees (EMPART) for white collar workers, and the Civil Servants' and Journalists' Fund (CANAEMPU) were formed. In the ensuing years, many other schemes were founded to provide coverage for the different groups, including the police, bank employees, racetrack employees, self-employed and municipal workers.

By 1970, there were hundreds of institutions and programs: thirty-one for old-age pensions, thirty for seniority pensions, thirty for disability pensions, thirty-five for health maternity, fifty-five for social welfare, and dozens more for family allowances and unemployment. To compound the problem, each institution had its own legislation, administration, financing and benefits, with notable differences among them. At least half a dozen agencies supervised the system, but there was no central co-ordination. The principles of unity, uniformity, and solidarity did not operate, but there was, at least, in the private sector institutions, tripartite representation in the administration of the system, (Mesa-Lago, 1989).

The system granted protection against the social risks covered by the ILO's Conventions: age, disability, invalidity, death, unemployment, occupational risks, sickness and family allowances. However, there was much inequality in the system, with a lack of uniformity in terms of contributions, benefits, and coverage. This inequality reflected the status, earnings and influence of the workers covered and contributed greatly to the preservation of social and economic inequalities into old age (Barrientos, 1993).

The Chilean government made several attempts to reform the system, but it was not until 1980-81 that there was any measure of success to the reform efforts. In 1960, the Committee for the Reform of the Social Security System in Chile described the system as:

- Uneven and discriminatory in favor of the higher-income groups;
- Inadequate as to both coverage and benefit levels;
- Fragmented, because of the number of administrative and inspection institutions involved, and of the huge variety of schemes;
- Regressive, in the sense that the supposed solidarity did not really exist, since groups earning higher incomes and thus able to bring more pressure to bear obtained benefits that were not available to less fortunate groups;
- Bankrupt. (Castillo, 1993)

This fragmentation and wide variation in benefit entitlements led to high cost, which was exacerbated by the maturity of the system and the evasion of payments by both employees and employers. In 1955, there were 12.2 active affiliates for every pensioner, while, in 1980, this ratio was 2.5 to every pensioner. In twenty-five years, the cost of the system had risen five-fold. In the 1970-80, the fiscal deficit of the system reached 28% of public spending, and in 1980, the social security expenditure was 11% of GDP (AGAFP 1994, Barrientos 1993).

It was against this backdrop that the government decided to take firm measures to reform the system. In 1980, the government passed Decree Law 3500, introducing the new pension system. Under this new system, individual capitalisation accounts were created, and were managed by Administradoras de Fondos de Pensiones (AFP). All workers joining the workforce after January 1, 1983 were compulsorily affiliated with an AFP, while it was voluntary for the others.

The government also provided incentives for existing workers to join the new system, and many did as the government issued Bono de Reconocimiento, (Recognition Bonds) for their contributions under the old system. These bonds were calculated to correspond to the present value of a pension replacing, for a full contribution period, 80% of the member's average income in the 12 months prior to June 1979. The bonds carry a real interest rate of 4%. They are calculated at the point of transfer, and redeemable at retirement, when the amount is transferred to the individual's capitalised account.

2.6.1 How the New System Works

Under the new system, workers pay 10% of earnings, defined as earnings above the legal minimum wage and up to a maximum of 60 Unidades de Fomento (UF).[2] There is an additional premium, currently 3%, which is used for meeting disability and death

[2] UF are adjusted daily for changes in the index of consumer prices. This index is widely used by business and government as inflation adjusted units of value (Barrientos, 1993).

pensions and the administrative expense of the AFP. This additional premium is set by competition, and was initially much higher, approximating 7%, in 1981. Workers can also voluntarily increase their contributions, and it is tax-exempt up to a maximum set limit. Affiliates are free to choose any AFP and can change AFP every four months. The government guarantees a minimum pension for anyone who has contributed to the scheme for 20 years and whose accumulated capital is insufficient to cover the minimum payment and the pension entitlements. In the event of default by an AFP, the government will make good any shortfalls, and assign the accounts to another AFP.

The government supports the scheme in the following manner:

- A pension guarantee in the event of bankruptcy of a private fund;
- A topping-up entitlement for pensions not reaching a certain minimum;
- Strict regulation and supervision of the AFPs;
- A limit for the number of entitled persons under the first pillar, namely a maximum of 300,000 (in 1990). Government will decide the exact number and the precise definition of eligibility in the future. This avoids a firm legal pledge toward the individuals to support them in the case of need, unless they have contributed to the second pillar. (Nitsch, 1996)

The affiliates to the system are entitled to the following:

- An old age pension at the age of 60 for women and 65 for men;
- Early retirement providing that there is sufficient funds in their account to generate a pension equivalent to at least 50% of the average updated deductible

income for the past 10 years, provided that the amount is equal to or greater than 110% of the minimum state-guaranteed pension;

- Trading of his recognition bond on the market, or assign it to an insurance company or an AFP for an annuity.

At retirement, the affiliate has three options:

1. Purchase a life annuity;
2. Programmed withdrawals from an AFP;
3. A deferred annuity with a programmed withdrawal

2.6.2 Analysis of the New Pension System

The debate on the impact of the new system has been intense and numerous. There are those who herald the new system as the new direction, and others who see it as no more than a forced saving scheme (Gillion & Bonilla, 1992). Others also see it as a dereliction of duty by the State in its protection of workers. Barrientos (1993) states, " by making individual capitalisation compulsory and the sole form of pension provision, the Chilean government has gone further in placing pension provision within the private sector." It is this placing of the funds in the private sector that has attracted the most debate.

Gillion and Bonilla (1992) argue that while the Chilean scheme is often seen as the epitome of "private" approach vs. the "public" approach, this dichotomy does not accurately reflect the realities of the scheme and plays down the role of the State in providing both guarantees and regulatory mechanisms. This view is also shared by

Myers (1996) who observes that "as for retirement benefits, there is one extremely important feature that many devotees of the Chilean approach either do not know about or do not recognise: prior service credits are granted, on a very generous basis, to people who were in the old system." These service credits are paid for entirely by the government and not at the time when the person enters the system, but when the person retires. This means that the government has huge general revenue obligations extending for decades, which increases its contingent liabilities.

The guarantees provided are not only possible contingent liabilities but also implicit contingent and conjectural liabilities for the government. Heller (1998) argues that even where the government has not given an explicit guarantee, to the extent that the organisation is forced to invest in government securities, this arrangement imposes an implicit conjectural liability for the government.

A conjectural liability is incurred when government recognises a liability to protect an organisation in the event of downside risks. This conjectural liability, Heller (1998) argues, arises in situations where government has imposed restrictions on the investment decisions of the social security systems to "protect" against adverse risks. He posits that the Singapore and Malaysian provident fund cases would appear the most obvious examples where the governments direct involvement in the specification of portfolio choices or on the utilisation of a pension fund's assets would give rise to such a liability.

It can be argued that, the Chilean government faces a conjectural liability in event of bankruptcy of any of the AFPS, as the new system was a government's decision and restrictions were placed on the investments of the AFPs. The fact that in the event of bankruptcy by one of the AFP the government guarantees the balances of all affiliates and oversees the transfer of the accounts to another AFP appears to be sufficient evidence of the recognition of a conjectural liability to the affiliates of the system.

The proponents of the Chilean method argue that the reform has led to capital accumulation, the deepening of the financial sector and the reduction of labour market distortions (Holzmann, 1995). Myers (1996) counters that argument by claiming that the amount of money that is put into the economy is very small. He goes further by saying that funds are laundered: the government borrows money to pay the prior service credits and the minimum pensions, and then it issues debt. As the pension insurance companies buy the debt, the effect is similar to PAYG systems where monies from current workers are used to pay current beneficiaries. In Chile, he argues, this is just done indirectly.

Myers (1996) also highlights a problem of "having too much money." He contends that there will not be enough investments in Chile to accommodate the huge sums of money and questions the uses of the money, whether it will be used for foreign investment, new sources of investment or loose loans and poor investment, even thievery. On the other hand, it is exactly this reason, the huge sums of money that the reform generates, that is used as the basis for arguing that there will be capital widening and deepening. The proponents of the reform, particularly the IMF and World Bank, claim that the funds will lead to the demand for more instruments, and because the regulation is an inherent part of the system, this would lead to capital widening.

Holzmann (1997) employed the Exogenous-Growth (EG) model to test for financial market deepening in Chile. He used the following financial market indicators - market capitalisation ratio (MCR), total value traded ratio (VTR), turnover ratio (TR) and stock market index (SMI) - as proxies for financial market deepening and liquidity. He hypothesised that rising investment needs of the pension funds, the instruments thereby created, and the competitive set-up of the privately managed pension funds made the financial market deeper, more liquid and more competitive. He concluded that the results "seemingly" confirmed this claim. He, however, cautioned, "all this evidence does not establish a watertight proof that the establishment of pension funds has been the decisive factor, or even only an important component, for the impressive development of financial markets since the mid-1980s. The empirical evidence is only consistent with the claim."

One of the factors on which there appears to be some agreement is the high administrative cost of the Chilean system, though there are different interpretations of this fact. The administrative cost of the Chilean system ranges from 12-20% of contributions. While many argue that it is comparable with the cost of other privately run pensions, such as defined benefit pension schemes, and insurance companies, it compares unfavourably with other government run pension systems, where costs range from 1-3% of contributions.

The high costs of the system have been attributed to the following:

- The high marketing and sales costs. The right of transfer owned by members, and the frequency with which they transfer have resulted in companies expanding efforts to keep members and to attract members from other AFPs. The number of selling agents increased from 2000 in the mid 1980s to nearly 15,000 in 1994. Vittas (1995) theorises that the more modest rise in active contributors suggests that the high costs of selling agents may inflate the overhead costs of the system without a commensurate increase in effective coverage and accumulated assets.

- The high cost of individual annuities. According to Diamond (1998) Chile relies on individual annuities with no provisions for group formation for annuity purchase.

Diamond (1998) argues that privatisation has been seen to be the route for greater efficiency and lower costs, and the most surprising aspect of the Chilean system is the costs. He argues that these high administrative costs of private markets raise two questions:

1. The extent to which a system with many small accounts is desirable, because compulsory savings are less attractive when costs are eating up a large fraction of savings;
2. Whether there are alternative designs, with more government or more employer involvement that would keep costs down. In the Chilean case, the collection of the contributions is left to the market.

Queisser (1995) acknowledges that the costs of the system are high, but argues that since the net real returns have been very good, the costs have not affected members' retirement capital negatively. Vittas (1995) appears to concur and argues that the significance of the high operating costs tends to be exaggerated. What matters, he argues, is the net investment return, and the Chilean system has produced very high returns, amounting to over 10% over the first fourteen years of operation.

These two positions seem to suggest that once returns are "high" then the costs do not matter. This does not appear to make much sense, for the lower the costs, the higher the return and the greater the benefits and security to the workers. One also has to question what is meant by the use of the words "high" and "very good, " and to enquire about the basis used to arrive at that conclusion. Queisser (1995) recognises this point for she cautions that it cannot be expected that such returns will prevail in the long term; therefore the costs of the system remain a problem to be tackled.

The Chilean system has often being praised for its high returns. According to Arenas de Mesa and Bertranou (1997), during the period 1981-95, the system averaged a real investment yield of 12.8%, accumulated assets of US$ 25.1 billion and accounted for 39.9% of GDP in 1995. They claim that about 61% of the funds accumulated during the 1981-95 period were made up of investment returns and the remaining 39% were due from contributions.

It is generally believed that this high rate of return is not sustainable, as they have been due more to the macroeconomic environment in Chile rather than the managers' investment proficiency (Holzmann, 1997). When the economy returns to a more stable growth pattern the accumulation of the funds will do so at a slower pace. Even if the returns were to continue, with lower costs, members would earn a higher return. Notwithstanding his argument, Vittas (1995) concedes that when investment returns in Chile decline to more sustainable levels, the high operating costs could have a bigger effect on net returns. The evidence suggests that this may be sooner rather than later. In October 1997, after 17 years of operations, only four companies were recording profits although the accumulated results show that eight AFPs recorded positive net results (Queisser, 1998).

Gillion and Bonilla (1992) argue that the high real rates of return achieved are not unique to Chile, as other markets around the world also experienced high real rates of return. They estimated a realistic long-term real rate of return of 3%, but Castillo (1993) argues that the long-term interest rates for the funds will be in the range of 5.5% to 6.5%. Arenas de Mesa and Bertranou (1997) note that while the AFPS have indeed produced high returns, in 1984, 1992 and 1995, the AFPs returns were lower than that offered by the banking sector to their savings accounts. It would be interesting to compare the average return of the banking sector's saving accounts over that time period. The return in 1992 and 1995 were negative, but two years does not make a trend. A trend of at least ten years from 1995 – 2005 would be useful to provide more conclusive answers.

One of the main advantages advanced by proponents of the Chilean system is that the government provides a guarantee on profitability. However, this is not exactly correct, as it does not guarantee a positive return. In 1995, the average return of the AFPs was negative two and a half percent (-2.5%). The government guarantees relative as against absolute profitability, (Arenas de Mesa and Bertranou, 1997; Gillion and Bonilla, 1992). This means that the return guarantee is based on the average return earned by the AFPs over the last twelve months. The AFPs must generate each month a return that is not less than the lower of:

(a) The average profitability over the previous 12 months of all the funds administered by the AFPs minus 2 percentage points; or

(b) 50% of the average profitability over the previous 12 months of all such fund.

The AFPs are required to establish a Fluctuating Profit Reserve, which is part of the members' fund and comprises those profits in excess of the minimum stipulated above. They must also maintain a Guarantee Reserve of at least 1% of accumulated funds, minus the value of the investments in other funds and investments in bonds issued by the General Treasury of Chile or by the Central Bank of Chile maturing within 30 days of the date of acquisition (Gillion and Bonilla, 1992). These reserves are used to meet any shortfalls in the returns of the AFP, below that of the minimum. Where the reserves are inadequate to meet the returns, the government makes up the difference and the AFP is dissolved. The assets are then transferred to another AFP.

The government has imposed restrictions on the composition of the portfolio, but the restrictions are maximum limits. Bertranou (1997) claims that the limits have been placed to reduce risk through diversification of the portfolio, to finance the transition by making public securities the most important financial instrument of the portfolio and to protect the financial markets in which the AFP trade securities. In the early years of the reform, foreign investment was prohibited, but in 1985, that restriction was lifted, and a maximum of 9% was allowed. Many of the AFPs have, however, not invested in foreign securities and at the end of 1995, only 0.2% of the portfolio comprised foreign investment.

Vittas (1995) contends that the minimum profitability requirements coupled with the tight investment regulations and the one fund per company rule have resulted in nearly uniform investment portfolios. A beneficial effect of this, he argues, has been the absence of big disparities in investment returns across companies. However, the uniformity of investment portfolios undermines one of the rationales for having a competitive decentralised system, which is the competition for accounts through a more effective allocation of funds and the achievement of higher returns. Diamond (1996) concurs and states that the guarantee that no fund performs much worse than the average of all funds, creates an incentive for fund portfolios not to differ too much from the average fund, since the AFP bears some of the down risk but none of the up risk (except through increased enrolments).

This leads to "herding behaviour," and the much-vaunted advantage of the system, in giving affiliates choice of portfolio, has not been realised. Srinivas, Yermo & Whitehouse (2000) studied the impact of investment regulations on the performance of the pension funds in Chile, Argentina and Peru and concluded that regulations impact negatively on performance, create distortions in asset management and limit opportunities for diversification. They advocate the liberalisation of the regulatory regimes to allow for investments in a wider array of instruments. They also recommend the evaluation of performance against market benchmarks rather than industry averages.

Valdes-Prieto (1999) took issue with the conclusions and recommendations reached by Srinivas et al. He argues that the assertions that the regulations jeopardises performance may be true for Mexico, where pension funds are prevented from investing in equity and foreign investment, but do not hold for Chile, Argentina and Peru. He argued that Srinivas et al dismissed the Argentinean case, which contradicted their conclusions on the basis that a third of the portfolio was not marked-to-market, but was based on historical costs. He adjusted for that valuation and the results still showed that the Argentinean case outperformed the benchmarks. He also cited the results for the Peruvian data, which under performed the benchmark used by Srinivas et al. Peru has a more liberalised environment than the other Latin American countries. These factors he argues, disproves the conclusions reached by Srinivas et al that regulations negatively impacted on performance.

Valdes-Prieto (1999) also posited that there were "benevolent rationales" to keep investment limits on the portfolios. He argued that the limits would foster diversification, reduce the moral hazard problem, limit the replacement risks for workers and limit the conflict of interest between the pension fund managers and contributors. Other reasons justifying regulations on investments include the lack of financial sophistication of the contributors, and the underdeveloped state of the financial market. The issue of worker knowledge of his/her pension arrangements will be discussed in section 2.10. The government also, by making pension saving mandatory, has an obligation to protect the people's funds and to guard against overt corruption and incompetence.

Another point most people agree on is the low compliance rate of contributors. Data provided by the SAFP, El Sistema Chileno de Pensiones (1994, 1996) indicate that the rate of affiliation is 95%, but the real coverage is 60% of the employed labour force. Evasion is estimated at 44% of the affiliates (Arenas de Mesa and Bertranou, 1997). This high evasion rate has caused many to fear that the Chilean pension reform will not provide adequate pensions for the retired and that there will be huge demands on the state's guaranteed minimum pension, which will lead to high costs for the government. It also serves to undermine the position of the World Bank (1994) that the cause of evasion is high contribution rates and the reduced link between contributions and benefits.

Myers (1998) argues that not only is there a situation of "Nannygate," of not covering low-paid employees because of ignorance or laziness, but there is also the planned underreporting of wages for low-paid workers. This, he claims, is because to be eligible for a pension, all that is required is 20 years of contributions, and there is no use reporting wages higher than what is necessary. He argues that the problem is rooted in the benefit design. Gillion and Bonilla (1992) support that view asserting that the gains in efficiency and (contribution) compliance expected from the transition to a privately administered system have not been fully materialised. They state that the proportion of members of the new scheme who paid contributions regularly fell from 76% in 1983 to 71% in 1988 to 53% in 1990, and that the proportion varies between funds.

The figures reported by the SAFP shows an improvement of about 4% in 1996, with a reported compliance of 60%. They claim that the compliance rate ranges from 45% - 55% among lower paid workers and 80% -90% for better-paid workers. The reasons are unclear but they hypothesise that as they near retirement, some lower paid workers delay contributions to qualify for the minimum state pension, supporting the arguments made by Myers (1998). They account for the higher compliance of higher paid workers by arguing that it may be easier to keep track of and collect contributions from them. But irrespective of the reasons for evasion, one of the likely impacts is an increase in the recourse to the minimum state guaranteed pension. These factors strengthen the argument of those who claim that the government guarantees create contingent and conjectural liabilities, and that these liabilities may turn out to be more costly than the traditional pay-as-you-go systems (Heller, 1998; Beattie & McGillivray, 1995; Gillion & Bonilla, 1992).

Notwithstanding the limitations of the Chilean reform, it was seen as a blueprint for change and sustainability of social security systems, and several reform initiatives were undertaken based on the Chilean model. These latter reforms known as "second generation reforms" (Queisser, 1998) were carried out mainly in Latin America and Central and Eastern Europe. In the next section a brief analysis of those reforms are provided.

2.7 Second Generation Reforms[3]

These reforms have been mainly in Latin America and Eastern Europe. The systems in Latin America faced similar problems to that experienced in Chile and included the uneven and inequitable distribution of benefits, the exclusion of the urban and rural poor, the exertion of pressure by the politically powerful groups, maturity of the system and financial difficulty (Queisser, 1998). The systems in Central and Eastern Europe (CEE), faced financial stress following the unification with Germany, for

[3] More detailed information on the pension reform and its implications can be derived from Gruber & Wise (1997), Holzmann, Packard & Cuesta (2000), Kane (1995), McGreevey (1990), Mitchell and Barreto (1997), Rocha, Hinz & Gutierrez (1999), Rofman & Demarco (1999), Vittas ('1997) Vittas (1998a), Vittas (1998b).

during the transition, they had to cover new risks, officially not known before (unemployment) or ignored (poverty) (Holzmann, 1997b: 195). The World Bank played a leading role in the second-generation reforms and in each case the new system was a variation of the Chilean model. Appendix 1c provides a detailed summary of the reforms undertaken in Latin America and Central and Eastern Europe.

Queisser (1998) asserts that the overall performance of the second-generation Latin American reforms has been satisfactory: expansion of the financial sector and the development of the infrastructure and an increase on savings and growth. However, the failures appear to overshadow the alleged successes of the reform. Affiliation to the new system has been slower than expected, with the exception of Uruguay and there has been no substantial increase in coverage.

The private pension fund companies have not performed well, with many suffering from huge operating losses, even amidst the high fees paid by affiliates in commission and management fees. In Argentina, Colombia and Peru, a substantial number of them are running large operating losses, and in Peru only three had broken even by the end of 1997 and between 1993 – 1997, the industry as a whole, lost more than two-thirds of its initial capital. In Colombia, during the first three years, losses amounted to about 70% of the initial capital and by mid – 1997, only one company had broken even (Queisser, 1998).

This failing of the private pension funds lends support to the argument that private management is not a panacea for poor operating performance and inefficiency, so often claimed by the proponents of reform. It strengthens the case for the identification of the governance and other factors, which impact on performance, if the systems, private as well as public, are to remain viable.

The accumulation of the pension funds has not been as dramatic as in Chile. By the end of the third year of operation, the Chilean pension industry had accumulated assets corresponding to roughly 8.6% of GDP, while in Argentina, the country with the highest accumulation of the second-generation countries, the accumulated assets represented only 3% of GDP. In 1997, the accumulated assets represented 2.8% in Argentina, 1.3% in Colombia, 0.2% in Mexico, 2.1% in Peru and 1% in Uruguay Queisser, 1998). All of the countries have imposed restrictions on the investment of the accumulated funds and on the number of funds offered to affiliates. Most offer only one fund, with Colombia offering three funds: one each for mandatory retirement savings, voluntary savings and severance benefits.

The return guarantee that most of the countries impose, has also led to "herding behaviour" by the pension schemes, similar to that experienced by the AFPs in Chile, with very little differentiation in their portfolios. This means that affiliates have limited choices and not the wide choices that competitive market was expected to bring. There is also little foreign investment in the portfolio, even when there are no restrictions. It is too early to evaluate the impact on the government of the minimum pension guarantees of the system. Like, with Chile, these are contingent and conjectural liabilities on the government. The reforms in the CEE are relatively young and it is too early to evaluate the performance of the reforms. These reform initiatives have evoked strong sentiments on both sides of the debate and in the next section an attempt is made to move beyond the ideological stance and identify the issues of the reform debate.

2.8 What is the Reform Debate All About?

The debate is often presented as one about the financing and structure of the social security systems (World Bank, 1994; Queisser, 1995; Vittas, 1998; Wallich, 1998; James, 1997), but it is arguably one about privatisation and the value system of a society, which in turn affects its attitude towards redistribution and solidarity.

Miles (1998) suggest that much of the discussion of the relative merits of funded and unfunded schemes is as much about the relative efficiency of public against private sector provision, and the desirability of redistribution to the less well off, as it is about funding per se. This view is supported by Ostaszewski (1997b) who argues "nowhere else, neither in politics, nor in economics, nor in finance, is this a debate about prefunding. If actuaries continue debating this as a 'prefunding versus payg' issue, then actuaries will become equivalent to mediaeval scholars debating devils on a pinhead. [*The debate is about...privatisation]*" (emphasis added).

While financing and management are often used interchangeably, they are separate issues. Privatisation is a management issue, while the question of funding or PAYG is a financing issue. When this separation is made, the advantages of privatisation are not as impressive as when clouded with the financing issue.

Barr (1987) also joins the debate and argues that the main issues dividing the proponents of PAYG and funded systems (that funded systems are safer, offer more freedom and impose greater financial discipline) have little or nothing to do with the central issue of paying pensions. He argues that it "depends largely on views about social justice," and on whether redistribution is viewed as advantageous or not. Kingson and Williamson (1998) share Barr's view, and argue that there is a disturbing tendency to reduce social security discussions to mere accounting exercises of the financial cost of the program. This, they argue, overlooks the value of a social security scheme as a source of national social cohesion and as an expression of the contributions and obligations of each member of the national community.

They view the debate as fundamentally about a society's sense of responsibility to each other; and about the basic protection that each worker should be assured of for themselves and their families in old age, disability or on death of a loved one. It is also about the mix of public and private efforts that should be encouraged to assure that security. In essence, the moral basis of social security rests on the assumption that a society has a stake in the well being of its people and along with social security, this value is worth preserving. This view is also shared by Beattie (2000) and Scholz et al (2000) who see social security as a fundamental human right and as an important element in fostering social cohesion.

Before this chapter closes, analysis of the British pension system is presented to highlight the importance of transparency and accountability in the management of social security systems.

2.9 Pension System of the UK

Coverage of the UK state pension system is virtually universal for people under the pension age. Anybody in work and earning more than £60 a week (about 15% of the average male earnings) is covered, as is anybody not working who is unemployed, disabled or home looking after children of school age. The UK social security system was heavily influenced by Beveridge, and after his report on social security provisions in the UK, the National Insurance Act of 1946 was passed. It incorporated many of Beveridge's recommendations in respect of pensions, unemployment and disability. These benefits were to be universal and flat rate, financed by flat-rate contributions by employees.

Beveridge recommended that benefits should be introduced gradually, but full benefits were introduced more rapidly and benefit levels rose in line with living standards. By 1965, the benefit levels had doubled in real terms and the flat-rate contributions required to finance the increased benefits became particularly burdensome on the low paid, resulting in the introduction of earnings-related contributions (Whitehouse, 1998). The earnings-related contributions led to the introduction of "graduated pensions," which were eventually closed in 1975 (Blundell & Johnson, 1997).

Over the same period, employers' provision of supplementary pensions grew and by the mid 1960's, almost all public workers were pension members, along with a significant number from the private sector. In the 1950's about 25% of employees belonged to a pension plan, and that number rose to over 50% in the mid 1960's (Whitehouse, 1998). This trend continues in the present: of the workforce in the mid

1990's, 75% are "contracted out" of the second tier State Earnings Related Pension Scheme (SERPS) into private occupational and personal pensions. Almost 50% of pensioners' income come from non-social security sources, and the proportion is increasing (Blundell & Johnson, 1998).

These factors explain why Blundell and Johnson (1998) argue that the UK's pension system is not well described by an analysis of the social security element. They also partly attribute the solvency of the pension system to these factors. They reveal that tax rates necessary to finance the system are not predicted to rise despite the fact that the number of people over state retirement age is predicted to rise from 15.7% of the population to over 24% in 2050.

Among men universal coverage has been a fact virtually since the introduction of the current regime in the late 1940's. For women, the move to universal coverage is only just being completed. This is because of three separate changes:

(1) The greatly increased level of economic activity among women;
(2) The introduction in 1978 of *Home Responsibilities Protection* which effectively credits contributions for women with dependent children
(3) The phasing out of what is known as the *married women's rate* of National Insurance Contributions. This feature allowed married women to pay much reduced social insurance contributions in return for foregoing rights to the basic pension in their own right. However, since 1978 no new entry to that lower rate has been allowed (Blundell and Johnson, 1997).

The basic pension remains by far the most important element in social security spending on the elderly. There are also important income related benefits: 1.5 million of the 10 million pensioners are dependent on the minimum means-tested income support benefit, which is available at higher levels than the state's pension. However, many fewer persons who are entitled to claim the means-tested benefit do so because of the stigma attached (Financial Times, December 4, 2000).

The Social Security Act 1975 introduced the State Earnings Replacement Pension (SERPS) (Whitehouse, 1998). The SERPS was implemented in 1978 with the intention that it would start paying out full benefits 20 years later. It was designed to provide a pension equal to one quarter of earnings during the best 20 years of earnings, with full inheritance by surviving spouses. The current contribution rate is 10% for employees and 10.2% for employers. The Upper Earnings Limit (UEL) caps contribution rates for the employees but not the employers (Blundell and Johnson, 1997).

From 1999, the SERPS accrual rate will fall gradually and will result in a drop in the replacement rate from 25% to 20% of best twenty years and a reduction in survivors' benefit from 100% to 50% of the spouses' benefit by 2027-28. The fall in the accrual rate was introduced in the Social Security Act of 1986 following concerns about the generosity of SERPS and the ageing population resulting in unsustainable levels of expenditure in the future. There is no provision for early retirement under the basic pension and SERPS. Persons are allowed to opt out of SERPS and by 1997 about three-quarters of eligible workers (those earning above the Lower Earnings Limit (LEL)) were not covered directly by SERPS: half are in occupational schemes and another quarter in Personal Pensions (Blundell and Johnson, 1997).

Whitehouse (1998) argues that the "contracting out" option was developed to avoid the opposition of established, mainly employer-provided pension funds. This "contracting out" feature is unique to the British pension system. The contracting out option allows employers and employees to pay a lower rate of social security contributions if employers agreed to pay a "guaranteed minimum pension" (GMP) to employees. This option was first only allowed for those with occupational schemes, but in 1998, it was extended to individuals who took out personal pensions or belonged to group money purchase schemes (Blundell & Johnson, 1997; Whitehouse, 1998).

There are however, growing fears that the pension provided by the money purchase schemes will be inadequate. It was estimated that in 1991, a 30-year-old man who contributed 10% to a money purchase scheme would have received a pension equivalent to 55% of his final pay at 65. A 30year old, who takes out such a pension in 2001, is expected to receive only 24% of his final pay at 65 (The Guardian August 16, 2001).

2.9.1 Pension Reform in the UK

Whitehouse (1998) posits that since SERPS was introduced with a cross-party consensus, many believed that the pension system in Britain had reached a steady state, but this was not to be. He contends that SERPS was introduced without long-term projections of its future costs and when forecasts showed that there was a serious potential problem as contribution rates would rise from 15% to 35%, the Thatcher administration, imbued with an ideology of privatisation and a desire to re-examine all aspects of public pension spending decided to act. This led to a series of pension reform initiatives in the 1980's and 1990's that reduced the generosity of the state pension provision and extended opportunities for contracting out.

Whitehouse (2000) provides a chronological order of pension reform initiatives in the UK from 1978 – 1999, viz:

1978	SERPS introduced
1981	Price indexation of basic state pension
1985	Proposal to abolish SERPS and replace with private, mandatory provision
1988	Personal pension option introduced Defined contribution occupational schemes encouraged SERPS replacement rate cut from 25% to 20%, survivors' benefit halved; earnings measure changed from 20 best years to lifetime average; overall, long run costs halved
1995	Technical change to SERPS indexation; long run costs cut by a third Women's state pension age to increase from 60 to 65 by 2020
1996	Mandatory contribution to defined contribution plans related to age
1997	Outgoing Conservative Government proposes "basic pension plus," moving the whole of state pension provision onto a private defined-contribution basis
1998	State second pension to replace SERPS Stakeholder schemes announced Social assistance and basic pension merged into new "minimum income guarantee" to be uprated in line with earnings
1999	Treasury launches pooled-pension-investment vehicle

In 2001, the Stakeholders' pension was implemented but the initial take-up was much less than anticipated. Four months after the implementation of the system, only 224,000 pensions were taken out, out of which only 50,000 were new policies. The remainders were transfers from existing systems (The Guardian, August 16, 2001). This low take-up may be due to the caution following the mis-selling of the pensions when workers were allowed to "contract out." The poor financial performance of the capital markets in the past two years may have also instilled an element of caution.

From the above, it can be seen that there have been several reform initiatives in the pension system in the UK, some parametric and some major. The frequency and volume of the changes give support to those who argue that the state pension schemes are volatile and risky, and subject to political risk and hence they argue for the private and individual account schemes (World Bank, 1994, Borsch-Supan, 2000). However, in the next section, a look will be taken of the mis-selling crisis of the private pensions, emphasising the risks passed on to the workers by contracting out.

2.9.2 Mis-Selling of Personal Pensions

Many persons as demonstrated above contracted out of the state pension, and for some it proved to be a mistake. This gave rise to the mis-selling debacle. Whitehouse (2000) opines that lack of both information and impartial advice played a major role in the debacle, but it is difficult to isolate the number of people who were affected and the value of the loss.

Whitehouse (1997 & 2000) identified four examples where mis-selling may have occurred:

- Those who were too old, so SERPS offered a better option than personal pensions;
- Those with small earnings who were burdened by the huge transaction costs;
- Those who were persuaded not to join an employer's pension plan and take out a personal pension instead;
- Those who transferred their pension out of a current or previous employer's plan into a personal pension.

He, however, acknowledges that it is difficult to work out how persons were affected, as defined benefit schemes use a formula based usually on tenure and earnings, and both of these are ex-ante conditions and hence difficult to measure. Employees who take out a personal pension usually lose the employers' contributions, especially if the employer provides an occupational pension scheme. Only 15% of employees with personal pensions receive an employers' contribution and only 5% of those who provide a pension scheme will contribute to a personal pension instead (Whitehouse, 2000). This would be one way in which employees could lose as employers' contributions usually make up 70% of contributions in occupational pension plans. According to Whitehouse (2000) there are about 645,000 potential cases of mis-selling, about 11% of personal pensions sold. So far 255,000 have been settled, and the total compensation paid by personal-pension providers totals £1.2 billion or £5,300 per case.

This brings us to the related issue of worker knowledge and understanding of their pension entitlements and the pension options available to them. The Office of Fair Trading's survey (1997) showed that only 44% of people had sought information before making their pension arrangements and they were mainly those who had taken out a personal pension: (82% of those with a private pension had sought information prior to making that move, compared with 50% of those with an occupational plan and 20% of those without private arrangements). The survey also revealed that there was a significant discrepancy between actual pension entitlements and perceived entitlements and benefits. Less than a third of those surveyed could estimate the value of the basic pension within a range of ± 7% (and ± 10% for a married couple's entitlement).

Another survey conducted by the Nationwide Building Society (1998) found that 55% of people admitted to having no idea of the value of the basic pension. In relation to SERPS and private pensions, only 21% were close to knowing what the acronym SERPS meant and knowledge of private pensions was mixed: more than 80% of employees with a personal pension knew that it would provide a defined contribution pension, while 9% thought it was a defined benefit pension.

A Department of Social Security survey conducted in 1997 reveal that there are significant differences in knowledge of contracting out between public and private sector occupational scheme members. All public schemes are contracted out, but around 30% thought their scheme replaced SERPS and a quarter did not know whether they were contracted out or not. In the private sector 60% said they were contracted out, when the number contracted out is about 85%, and a quarter of the workers in the private sector did not know whether they were contracted out. There also appears to be lower awareness of SERPS among those without a private pension (Whitehouse, 2000).

A study by Towers and Perrin (1999) states that less than half of employers believe their employees understand their occupational pension, and far more employees claim they do understand than they actually do. Tammy Mattson of the employee benefits consultancy says "73% [of employees] may understand that they have a pension plan in place, but if you ask them if it will be adequate, they clearly do not understand what their income will be or…what will happen when they move jobs," (Whitehouse, 2000). These findings shed some light on the reasons behind the mis-selling debacle, for if employees do not understand the mechanisms of their plans; it is easier for them to make wrong decisions and to be mis-informed. It also leads one to question the extent to which contributors understand the reform initiatives introduced by various governments.

A similar, though not identical survey of worker knowledge of pensions in the US found that pension misinformation and missing information is widespread and there is a huge information discrepancy concerning provisions for early retirement: two thirds of the respondents provided wrong answers to questions relating to early retirement. The answers were more accurate concerning provisions of normal retirement. The study found that good information appears more prevalent among unionised workers, workers in large firms, the better-educated, higher-income workers and those in senior positions. The study also found that whites and women were also more knowledgeable about their pension provisions (Mitchell, 1988). Mitchell argues that the findings clearly shows that regulations currently on the books have not resolved the issue of worker ignorance regarding key pension provisions and that research is needed to determining the best and least-cost mechanisms of generating better pension, especially to the less advantaged workers.

These findings and the experience of Britain with the mis-selling of the pensions highlights the risks faced by the workers, so clearly articulated by Gillion and Bonilla (1992) and McGillivray (2000a). It is arguable that the workers in Latin America and Central and Eastern Europe do not fully understand the choices laid before them and the oft-quoted advantage of the right to change AFPs, may be one of fiction rather than reality.

2.10 Conclusion

Providing social security for all the world's population is an ideal and a right enshrined in the UN Declaration of Human Rights, but achieving this goal is far from easy. There are so many factors that make this difficult: distrust of the system and the intentions of government, poverty, the growth of the informal sector, lack of knowledge of the rights and benefits of members, lack of resources - human, capital and informational - mismanagement and government intervention and interference, to name a few.

There are several means by which social protection could be provided. The choices are often differentiated on the lines of funded/PAYG or privatisation/public management, but the real choice is between individualisation and solidarity. Which of these two systems provide the greater opportunity for ensuring that social protection reaches everyone? The system based on solidarity provides the greater opportunity for so doing. After this choice is made, the other questions pertaining to the financing and management of the schemes then need to be addressed. Again, the criterion should be the system providing the greater opportunity for extending social protection to all: Is it PAYG or funded? Is it public or private management?

While some argue that a funded system is not necessarily safer or that it provides greater immunity against the ageing of the population (Barr, 1987, Beattie & McGillivray, 1995), a funded system provides the opportunity to earn interest and provide the system with a greater probability of liquidity and thus flexibility in the face of crisis. In addressing the public/private management issue some contend that public management is perverse and inefficient (World Bank, 1994, Borsch-Supan, 2000). It was argued earlier that most of the advantages purported for privatisation are possible in publicly managed system. It is argued that what matters are not whether the management is public or private but whether the management is efficient and effective, and the governance structure in place.

Another aspect of financing deals with whether the system is contributory or not. A non-contributory system has the advantage of reaching everyone but it also runs greater insolvency and political risks as governments can choose almost unilaterally to reduce or even cease benefits to certain classes of persons, if they deem the system too expensive. It is also more vulnerable to the economic downturns of the country, as it competes with all other government spending. A contributory system, on the other hand, not only provides property rights to the contributors, but also provides the opportunity to separate the administration of the scheme from the general government finances, thus providing greater probability of solvency on a long term basis.

This still leaves the problem for those in the informal sector and those outside the work environment as a result of disability, unemployment or caring for the sick and old. Providing coverage for this group is one of the core principles of the Beveridge Model of social security, for it is only when this group is covered, that the system can claim to be truly universal. So which system leads to greater opportunity for social protection for all? A multi-tier system comprising of:

- A first tier of social assistance to alleviate poverty and so targets all those in need and unable to contribute to the second tier either fully or on a regular basis. This tier may also comprise of a flat basic pension to which everyone is entitled.
- A second tier that is contributory funded and defined benefit. The management may be either public or private. A defined benefit second tier is favoured because it fosters redistribution, solidarity and offers workers a guaranteed minimum pension.
- A third tier comprising of private savings.
- A fourth tier comprising of occupational schemes.

Notwithstanding the preferred structure given, there is no one perfect system. There are advantages and disadvantages with respect to all the systems and countries should choose a system that fits not only their economic and demographic profile, but one that is also compatible with their social and values profile. It is also argued that irrespective of the system adopted, good governance, effective and efficient management are critical for success.

In the next Chapter, the social security organisations (SSO) of the OECS are introduced. The evolution and role of the systems, an analysis of the reform initiatives undertaken and the existing private pension environment will be presented.

CHAPTER THREE - THE SOCIAL SECURITY ORGANISATIONS IN THE ORGANISATION OF THE EASTERN CARIBBEAN STATES

3.1 Introduction

Having discussed the general issues facing social security systems and social security funds in the last Chapter, the purpose of the present Chapter is to focus the debate on the social security organisations (SSO) of the Organisation of Eastern Caribbean States (OECS). The main objective is to set the scene for specific analysis of governance issues by tracing the evolution of the social security organisations, examining the reform initiatives and looking at the private pension provision in the OECS.

In section two, a brief of the OECS is provided, followed by the evolution of the social security systems in section three. In section four, the emergent themes during the introduction of the systems are discussed. In section five, a discussion of the role of social security in economic development is presented, followed by the reform initiatives undertaken in the OECS in section six. The interview findings with the insurance companies and with the stakeholders with respect to private pension provisions are presented in this section. The reciprocal agreements between the Member States of the OECS and the Caribbean Community and Common market (CARICOM) is analysed in section seven, followed by an examination of the private pension arrangements in section eight. The conclusions of the chapter are presented in section nine.

3.2 The Organisation of Eastern Caribbean States[4]

The Treaty of Basseterre established the Organisation of Eastern Caribbean States on June 18, 1981, with seven countries – Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines. The OECS was established amongst other things to promote co-operation among the Member States and to defend their sovereignty, territorial integrity and independence. Two other countries, Anguilla and the British Virgin Islands are associated members of the OECS, taking the group's membership total to nine.

These countries were all former British Colonies, but six have gained political independence with only three, Anguilla, British Virgin Islands and Montserrat still dependent territories of Britain. The countries cover an area of 1,612 square miles and have a combined population of a little over half a million persons. Agriculture is the mainstay of the economy in the majority of the countries, with tourism, light manufacturing and construction contributing significantly in some of the other countries. The chief agricultural export is bananas followed by sugar and spices.

3.3 Evolution of Social Protection in the OECS

The governments in the OECS, like many governments throughout the world, have been concerned with introducing social protection systems for their population. During British rule, while provisions were made for colonial officers, very little provision was made for the rank and file of the population. There were some Poor

[4] Information relating to the objective of the OECS was sourced from the official Web page of the OECS Secretariat. Information relating to the population, economic and demographic data was sourced from the official web page of the Eastern Caribbean Central Bank.

Relief Laws and Friendly Societies providing for some segments of the population but these were inadequate and did not reach the mass of the population.

In the 1950's most of the countries gained associated state status, which was a precursor to independence with more local persons participating in the internal governing of the islands. In the early 1950's there was a concerted effort by the local government to improve and enhance the social protection measures and requests were made to the British Colonial Office for assistance and direction. On the recommendations of the Colonial Office, national provident funds were introduced in most of the islands, and these were later replaced by national insurance or social security systems.

Six of the nine countries under study introduced a national provident fund as a forerunner of the social security/national insurance system. Three countries, Anguilla, Antigua & Barbuda and the British Virgin Islands did not. Antigua had actually passed the National Provident Act in 1970, but never implemented it. There was a change of government shortly after the Act was passed and the new government opted instead for the more comprehensive social security system. National Provident Acts were never passed in Anguilla and the British Virgin Islands.

The initiative for a more comprehensive approach to social protection for workers originated in St. Kitts & Nevis (Fletcher, 1976; Compton, 2001; Manning, 2001[5]).

[5] Information attributed to Compton (2001) and Manning (2001) throughout this paper was derived from a personal interview conducted with Mr Francis Compton, on 26 January 2001 and Mr Manning on March 30, 2001. Mr Francis Compton served as first executive director of the National Provident Fund in St. Lucia and the National Insurance Scheme until 1996. Mr Manning was the first executive director of both the St. Kitts & Nevis Provident Fund and Social Security board. He retired in 1995.

Serious discussions on the possibility of establishing a pension scheme for the sugar workers in St. Kitts began in the early 1950's. In September 1951, the St. Kitts Sugar Factory established a non-contributory pension scheme, which provided a modest income to persons over 50 years, who had worked continuously for a minimum of 10 years. In 1952, a committee comprising representatives of workers, employers and government was established to determine the feasibility of introducing a contributory social security scheme, but concluded that the time was not ripe to introduce the scheme but instead recommended an increase in the public allowance for poor relief.

About the same time, the St. Kitts-Nevis Trades and Labour Union successfully negotiated with the Sugar Producers Association to pay a small pension to weekly paid estate workers who met certain established criteria from the beginning of 1954. From 1957 – 1960, the Labour Department conducted a survey to obtain data, which was to serve as a basis for designing a Sugar Workers' Pension Scheme. Nothing came of it, as the United Kingdom Actuary Department was awaiting the results of the 1960 Census before it could make recommendations regarding the introduction of a pension scheme. In the meantime, proponents of the scheme realised that a non-contributory pension was not sustainable and in 1963 requested actuarial advice from the British government (Fletcher, 1976).

In 1964, Charles E Clark, an actuary was sent to St. Kitts to advise on the establishment of a contributory provident fund and concluded that a provident fund would be a more suitable vehicle for providing for retired workers. He recommended that though the final decision would be that of government, discussions should be held with employers and trade union.

It can be seen that from a very early stage, tripartism was encouraged and recommended as an important element in the functioning of these organisations.

After receiving the Clark Report, the Colonial Office informed the Administrators in the other islands and enquired about their interest in discussing the introduction of a provident fund. George G Newton, an actuary, was sent to conduct a feasibility study in the other islands. He recommended that a provident fund should be established in the islands and made the following recommendations:

- The establishment of a Provident Fund, on a contributory basis, separate from the normal financial machinery of government to cover all adult employed persons except pensionable government employees;
- A contribution rate of 10% of earnings up to a ceiling shared equally between employers and employees;
- An investment goal of maximising the yield on funds consistent with security of capital;
- Seeking of technical advice in organising the schemes and training the staff, if the Funds were to be instituted (Fletcher, 1976).

The governments accepted the recommendations and the provident funds were introduced at various times, between 1969 –1972. The delays, in some countries, were caused by the change in government. The first country in the OECS to establish a provident fund was St. Kitts in 1968, followed by Grenada in 1969, St. Vincent, St. Lucia and Dominica in 1970 and Montserrat in 1972. The Fund in Grenada deviated from the "Newton Model" by covering only agricultural workers, requiring contributions only from employers and establishing the fund as part of government normal financial machinery (Fletcher, 1976). Anguilla broke away from the unitary state of St. Kitts and Nevis and Anguilla in 1967, and was therefore not part of the St. Kitts and Nevis Provident Fund.

Table 3.1
Summary Of Benefits Provided By The National Provident Funds In The OECS

Country	Year of Legislation	Benefits
Anguilla	**n/a**	National Provident Fund Act was never passed in Anguilla
Antigua & Barbuda	**1970**	Old Age, Survivor, Incapacitation, Emigration Grant Never Implemented
British Virgin Islands	**n/a**	National Provident Act was never passed
Dominica	**1970**	Age, Unemployment, Sickness, Survivor, Incapacitation
Grenada	**1969**	Old Age, Loss of Earnings, Sickness, Death – only for Agricultural workers.
Montserrat	**1972**	Age, Sickness, Incapacitation, Survivors
St. Kitts & Nevis	**1968**	Old Age, Survivor, Incapacitation, Emigration Grant
St. Lucia	**1970**	Age, Unemployment, Sickness, Incapacitation, Survivors
St. Vincent & the Grenadines	**1970**	Age, Survivors, Incapacitation, Emigration Grant

Source: Adapted from Fletcher (1976) pg. 8.

According to Compton (2001), the governments in the Caribbean were always more interested in introducing the more comprehensive social security fund, but the British Government and to some extent the ILO and ISSA were of the view that the islands were too small to sustain a social security fund. There appears to be some confirmation for this view, for according to Fletcher (1976) the Colonial Office "was responsible for nudging the St. Kitts Government towards the Provident Fund Approach," and the "government leaders had constantly emphasised that the Provident Fund scheme was only the first step towards a complete system of social security." This is further affirmed by the official records of the debate in Parliament during the introduction of the Bills to make the social security systems law in many of the OECS countries and from a report by the ILO/UNDP Caribbean Office (Hansards of the various OECS Member States, Joseph, 1975).

The provident funds provided some coverage for workers but because the contingencies covered were limited and also because the payment was paid in one lump sum, it was deemed to be inadequate to meet the needs of the public. It also did not solve the problem of income replacement in retirement, for the money was received in a lump-sum at retirement and many of the recipients frittered away the money shortly after receipt and went on to become charges on the state. In addition, the national provident funds had accumulated a sizeable reserve and some governments saw the potential for even larger accumulations under a social security system (Ministry of Agriculture, St. Kitts, 1977; Dominica Hansard, 1975; St. Vincent and The Grenadines Hansard, 1986). This move to a more comprehensive coverage was recommended and encouraged by the International Labour Organisation, and the ILO provided technical assistance to the governments in establishing the system (Dominica Hansard, 1975; Joseph, 1975).

3.4 The Introduction of Social Security System in the OECS

Social security systems were introduced to provide income security and improve the standard of living for workers, increase national savings and wealth and strengthen the financial capacity of the countries. The systems initially targeted all employed persons in the formal sector between the ages of 16 to 60 in most countries and 15 to 65 in a few. It was contributory, with contributions being made by both employees and employers, usually on an equal basis.

The system introduced in the OECS is more Bismarckian than Beveridgian, with the emphasis principally on employed persons. None of the systems in the OECS can claim to be fully Beveridgian as none provides universal coverage, though a few provide non-contributory pensions on a limited scale. The systems providing a non-contributory pension – those in Antigua, Grenada, St. Kitts and Nevis, St. Vincent and the Grenadines - can be said to be closer to the Beveridge model than the others. They are all defined benefit systems, and this element of solidarity is a feature of the Beveridge Model. As the systems evolve and coverage is expanded, both in terms of benefits offered and population served, it will move closer towards the Beveridgian model.

3.4.1 Benefits Provided Under the Social Security System in the OECS

Table 3.2 details the benefits offered as well as the year in which the social security organisations came into being in the different countries. As mentioned earlier, Antigua and Barbuda was the first of the OECS islands to introduce a social security scheme in 1972. The other OECS islands all introduced social security schemes during the 1975 – 1987 period. Four other Caribbean islands, Jamaica, Barbados, Guyana and Trinidad had established social security systems in 1969, 1970, 1970, and 1971, respectively.

At the inception of the social security systems all of the islands introduced the following benefits: sickness, maternity, invalidity, survivors, funeral grant and old age. Coverage for employment injury and for the self-employed persons was introduced subsequent to the introduction. However, the self-employed persons, though encouraged, are not yet mandated to contribute to the system in Anguilla and

St. Vincent & The Grenadines, but they are encouraged to contribute. Anguilla has also not yet introduced the employment injury benefit. In five of the islands non-contributory pensions are provided, though the criteria for qualification are not uniform.

Table 3.2
Summary of Benefits Provided by the National Insurance/Social Security Schemes In The OECS

Country	Year of Legislation	INC	Benefits
Anguilla	1980	1982	Old Age, Survivor, Sickness, Maternity, Invalidity, Funeral Grant, Employment Injury
Antigua & Barbuda	1972	1973	Old Age, Survivor, Sickness, Maternity, Invalidity, Funeral Grant, Employment Injury, Social Assistance
Dominica	1975	1976	Old Age, Survivor, Sickness, Maternity, Invalidity, Funeral Grant, Employment Injury, Medical Care
Grenada	1983	1983	Old Age, Survivor, Sickness, Maternity, Invalidity, Funeral Grant, Employment Injury, Social Assistance
Montserrat	1985	1986	Old Age, Survivor, Sickness, Maternity, Invalidity, Funeral Grant, Employment Injury
St. Kitts & Nevis	1977	1978	Old Age, Survivor, Sickness, Maternity, Invalidity, Funeral Grant, Employment Injury, Social Assistance
St. Lucia	1978	1979	Old Age, Survivor, Sickness, Maternity, Invalidity, Funeral Grant, Employment Injury, Social Assistance
St. Vincent & The Grenadines	1986	1987	Old Age, Survivor, Sickness, Maternity, Invalidity, Funeral Grant, Employment Injury, Social Assistance

Source: Acts of Incorporation of the Respective Countries. **Legend:** INC = The year the Act took effect

It is interesting to note that Dominica and Grenada provided for unemployment benefits under the National Provident Fund Act, (though in Dominica unemployment benefits were never actually implemented). Unemployment benefits are not provided for in any of the OECS islands through the Social Security Act or the National Insurance Act. Despite the fact that unemployment is recognised as a major problem facing the OECS countries and that past contributors are likely to be part of the unemployed population, there appears to be a reluctance to provide benefits for them on the grounds that it may encourage laziness and indolence but also to on the basis of costs.

Alleyne (1998) argues that while within the Caribbean there is a strongly held view that unemployment benefit programmes are detrimental to social security and should be avoided, the available evidence does not support that view. He draws on the experience of Barbados, the only Caribbean country to implement unemployment benefits to support his position. He contends that since unemployment benefits were introduced in 1981, there has only been one occasion, during the early 1990's when the organisation experienced pressure. He also makes the point that in the event of short-term difficulties the system can draw upon the Consolidated Fund of the government.

This however does not provide any assurances, for if, as is argued, unemployment in the Caribbean is high and chronic, then the resort to the Consolidated Fund may not be a short-term measure but become endemic, leading to severe pressures on the system and calling to question its viability and sustainability. It is recognition of the potential long-term problems that may arise, which has led to Urquhart's (1991) position that the experience of Barbados has certainly cautioned all other Caribbean countries to be wary of the pitfalls with this benefit.

This dissertation does not intend to provide a detailed analysis of the merits of the benefits provided by the social security systems. This issue, however, was highlighted to bring into focus the need for systems to incorporate the peculiarities of their environment rather than be wholesale importers of systems from outside, as argued in Chapter Two. Given the high rates of unemployment and the importance of the informal sector, it can be argued that any social security system in the Caribbean should have taken these factors in account, and a system of social protection for these groups should have been a priority. It is perhaps not too late and social security systems in order to continue to be relevant to the lives of the people of the OECS will have to take these factors into consideration.

3.4.2 Coverage of The Social Security System

In Montserrat and St. Lucia, civil servants were and are still excluded from the social security system. The government provides coverage for civil servants, in the event of sickness, maternity and old age. In these two countries, the civil servants were able to effectively lobby for their exclusion from the system, on the grounds that they were already covered for most of the contingencies by government in a non-contributory pension system. In Anguilla, civil servants were initially part of the system, then they were exempted, and their contributions refunded in 1983. They were later reinstated in 1987.

There are now on-going discussions to embrace the civil servants as part of the social security system in both Montserrat and St. Lucia. In fact, the process has progressed beyond discussions in Montserrat and a study has been completed to determine the feasibility of merging the government pension with that provided by the social security organisation.

The self-employed were excluded at the inception of the systems and a large segment of the working population was thereby excluded from coverage. This was chiefly on the advice of ILO/UNDP experts who argued that not only was a proper study not conducted, "it would be too much for a young country to bear at its present stage of development," (Joseph, 1975). In the 1970's the countries were predominantly agricultural and farmers and others in the agricultural community made up a large proportion of the workforce. This was also the group least likely to have alternative arrangements and more susceptible to the vagaries of nature, yet the group was excluded from coverage.

In addition to agriculture, workers in the tourism sector are also susceptible to the vagaries of nature and to seasonal employment. In 1995, the situation of the tourism workers was brought home very forcefully with the devastation caused by Hurricane Luis in Anguilla. The passage of the hurricane destroyed many hotels and employees were without work during the repair stage of the hotels. This meant that no social security contributions were paid on their behalf or by themselves and they were therefore ineligible for many of the short-term benefits.

Urquhart (1991), in addressing the issue of seasonal and casual workers, submitted that while no difficulty arises when claims are for long-term benefits, problems arise when claims are made for short-term benefits. This, he argues is "discriminatory and inequitable and warrants serious study and resolution." The problems for the long-term are as serious, if not more so. Seasonal workers will be required to work over a longer period of time to become eligible for a pension and because the pension is calculated usually on the best three of the last ten years of employment, seasonal workers may also receive lower pensions. This point was allegedly raised by the sugar factory workers prior to the implementation of the social security system in St. Kitts and Nevis (Osborne, 2001)[6], but their voices appear to have gone unheeded, as the eligibility criteria for benefits are uniform for all categories of workers.

The coverage figures for 1999 (twenty-seven years after the first social security and twelve years after the last social security/national insurance system was established in the OECS) will highlight the high level of informal workers in the OECS. The figures reveal that the countries with the lowest coverage are the Windward Islands of Dominica, Grenada, St. Lucia and St. Vincent, the islands with greater dependence on agriculture, mainly banana exports. This provides some confirmation of the high level of informal workers in the islands.

Table 3.3
Contributors as a Percentage of the Labour Force & Unemployment In The OECS

Country	Percentage (%) (1999)	Unemployment 1970	1980	1991
Anguilla	93.6	n/a	n/a	6.3
Antigua & Barbuda	88.3	n/a	n/a	6.7
British Virgin Islands	n/a	n/a	n/a	n/a
Dominica	30.4	8.1	18.6	9.9
Grenada	64.5	10.1	17.4	15.2
Montserrat	66.4	8.6	13	2.5
St. Kitts & Nevis	84.1	8.2	10.3	3.1
St. Lucia	47.1	9.2	17.2	14.5
St. Vincent & The Grenadines	54.2	12.9	23.5	19.8

Source: Adapted from Nicholls (2001).

[6] Information gleaned from interview with Mr Osborne, a former sugar factory employee on March 28, 2001 in St. Kitts.

As was earlier demonstrated this group of workers in the informal sector, is one of the groups most in need of coverage, for it is highly vulnerable and least likely to have alternative provisions for retirement. Given the decline in the importance of agriculture and the falling world prices for the agricultural exports of the region, this group will face enormous pressures in retirement. They may prove a huge burden on the coffers of government in some countries and the social security system in others, where a non-contributory pension is payable. It is quite conceivable that the farmers will not be content with the minimum pension payable and given their numbers may be able to exert pressure on government to pay a much higher pension to them.

According to Nicholls (2001) because of a deterioration of the terms of trade in bananas and cost-cutting measures, it is likely that the unemployment rate in the Windward Islands in particular has risen further. These new unemployed, he states, have added to the already large informal sector. He argues that this presents a problem of financing and expenditure for the social security systems.

This will, however create a greater problem of financing than expenditure as none of the systems in the OECS provide unemployment benefits. The larger portion of unemployed persons will pose great challenges for the systems as it reduces the contribution base and thus increases the system dependency. This will therefore make it imperative that the social security systems not only control costs but also enhance the returns on their investments. It requires a re-think of the role of the social security organisations and places greater emphasis on good governance and management of the systems and the investments. These issues will be dealt with in greater depth later in the Chapter and in Chapters Five, Six and Seven.

Contrary to the opinion of Urquhart (1991) and some governments (Dominica Hansard, 1975) the programmes in the Caribbean did not attempt to protect all classes of society. It appears to be a huge failing that the social security systems in the Caribbean did not address fully the concerns and peculiarities of the Caribbean society at its inception. Efforts have been made to rectify this failing by mandating that all employed persons, those in the formal as well as the informal sector, are to contribute to the social security organisations. However, compliance of the informal sector has been poor. As a manager of one of the social security organisations asserts, it is ironic that when it was optional for the self-employed to contribute to the system, no effort was made by the organisation to "reach" them and to convince them of the benefits of joining the system. However, now that it is mandatory, the organisation is spending lots of money "begging" them to contribute, with little success. It is important that the social security organisations improve their compliance mechanisms for evasion leads to a "free-rider" problem with the contributors subsidising the defaulters.

In addition to social security, there are some provisions for the poor, disabled and orphans, but they are arguably not very comprehensive and the benefits provided are inadequate. However, it must be noted that with respect to the orphans and abandoned children, there is a much greater effort by the government to provide assistance and this includes free education with transportation, books, uniforms and meals provided (Documentation from and Discussions held with officers at the Social Welfare ministry in OECS).

In all of the countries, there is some measure of private pensions provided by the employer and in some cases individuals as well, but it has been difficult to ascertain the true extent of coverage. Interviews with some insurance companies in the OECS islands reveal that in recent years there has been an increase in demand by both employers and individuals for packages structured for retirement. The insurance companies believe that there still exists huge scope for increasing coverage. In addition, more and more trade unions are including the provision of private pension as part of their collective agreements on behalf of workers. However, it appears that for many people in the OECS, social security will be their main form of income in their retirement. The issue of private provisions in the OECS will be discussed in more detail later in the Chapter.

3.5 Emerging Themes During the Introduction of the Social Security Systems and Their Characteristic

In all of the countries in the OECS, the introduction of the social security system was seen as a mechanism for enhancing the standard of living of workers. It would provide protection against various contingencies while employed, but more importantly would provide a pension, giving the workers a level of independence and dignity in old age. However, for some governments, the introduction of the social security organisations provided an opportunity and the means to facilitate economic growth as well as deepen the financial sector.

It is posited that the attitude of government would shape and influence the relationship with the social security organisations. This attitude would lead to distinct characteristics, which would persist even with changes in government, as the precedence would have been established. The characteristics of the themes are detailed in the Table 3.4. This table was compiled from information from the Hansards, which record the debate during the introduction of the social security system and from early files of the social security organisations and speeches by ministers of social security.

Table 3.4
Emergent Themes Framing the Relationship Between Government and the Social Security Organisations In The OECS

Safety	Economic Development
Hands-Off Approach by Gov't	Hands-On Approach by Gov't
Limited/High percentage of Gov't bonds and loans At below market rate	High percentage of Gov't paper & loans to statutory bodies at lower than market rate
Timely payment of interest and principal payments	Arrears and non-performance of investments by Gov't & its agencies
Timely Payment of contributions	Delinquency with regards to contributions
Possibly restrictions on investments	
Anguilla British Virgin Islands Montserrat St. Kitts & Nevis St. Vincent & The Grenadines	Antigua & Barbuda Dominica Grenada St. Lucia

A government whose priority was on the preservation of the funds accumulated is likely to impose greater restrictions on the investment of the funds and adopt a paternalistic approach in its relationship with the organisation. Though it would demand frequent reporting, it would not necessarily interfere in the management of the organisation. It would limit its lending of the funds at below market rate and would honour its obligations of interest, principal and contribution payments in a timely manner.

In contrasts, a government who saw the system as one of facilitating economic growth would attempt to influence the investment decisions and would view the funds accumulated as a cheap and easy source of funds for government projects. There would be heavy borrowing at below market rate and there may be late payments of not only interest and principal due but also of contributions. The government could even regard the funds accumulated by the social security system as an extension of the government's Treasury and make little distinction between the two.

A perusal of the financial statements will reveal that in the early years of the system's organisations in Antigua, Dominica, Grenada and St. Lucia, there was a substantial proportion of the portfolio invested in government securities and socio-economic loans. The statements also reveal that from inception, there has been default on some of those loans and arrears on both contributions and interest payments. In Antigua, fixed deposits of the Social Security organisation were also used to secure government borrowings at the commercial banks (Antigua & Barbuda Social Security Board (ABSSB) Annual Report, 1974).

Though Nicholls (2001) argues that excessive fiscal deficits financed by social security have not been a feature of the region's economic performance, the evidence seem to paint a different picture in some of the countries. In 2001, the government of St. Lucia owed EC[7] $40 million in interest arrears only. This excludes contribution arrears. The government of Dominica as at July 2000, owed EC $21.7 in arrears on interest and contributions. The government of Antigua owed EC$ 192.5m in arrears of contributions and interest as at December 1999. In St. Kitts and Nevis and St.

[7] The EC$ is fixed to the US$ at US $1 = EC $2.70.

Vincent and the Grenadines, the heavy investments in the government-owned commercial bank may provide indirect support for government's projects. This relationship between the social security organisations and the government has given rise to a big debate as to whether social security should finance economic development or whether it should focus solely on the provision of benefits and in particular retirement benefits. A brief look at the debate will be introduced in the next section.

3.6 What Role for Social Security in Economic Development?

The Acts of Incorporations in the OECS are very vague in their stated roles for the social security organisations in economic development. It is however, understood that the main purpose of the organisations is to maximise investment returns, following the general principles of safety, yield and liquidity, to enable the schemes to fulfil their obligations to contributors. There is however, in the OECS a clearly understood, and in most cases explicitly stated objective of facilitating national economic development, though it is not articulated in the Acts of Incorporation. A glance at the annual and other reports of the social security organisations (SSO) will reveal the expectation, if not the clearly stated role by the ministers and chairmen of the boards as to the role of the SSO in economic development.

The SSO's executive directors[8], cognisant of the fact that a healthy economy is vital for the success of the organisations, acknowledge that as the main mobiliser of

[8] The Social Security chief executive officers are usually called directors, but to avoid confusion with other directors of the board, especially in Chapter Four, they will be referred to throughout the dissertation as executive directors.

savings in the countries, they had a role, albeit secondary, to assist in economic development.

The role of social security in economic development is a bit contentious, as some pension fund experts do not advocate such a key role for the social security systems in economic development. They argue that social security's primary role is to finance retirement income and while it may increase domestic saving and have other positive effects, there are other measures more effective to achieve these macro-economic objectives (Thompson, 1998, McGillivray, 1998). Others, however, believe that social security, as it is traditionally structured, impacts negatively on the economy impairing the competitiveness of nations and they advocate reform including privatisation of the system (Feldstein, 1974, World Bank, 1994). This reform is expected to improve the economy, and in particular, facilitate the development of capital markets.

Notwithstanding the arguments, there may be a case for social security to play a role in economic development in developing countries, given that it is the largest mobiliser of savings in the countries (Samuels, 1993). One of the major problems at the moment is the fact that facilitating economic development is an implicit, rather than an explicit objective. This leads to investment decisions taken in an *ad hoc* rather than in a planned approach, which would facilitate the attainment of competing goals.

This view finds support with Theodore and La Foucade (1999) who disagree with Gutierrez's (1989) suggestion that the social and economic utility of social security investments should be considered after the other conditions of safety, yield and liquidity, have been satisfied. They argue that all these principles need to be considered as a whole, given that the social security systems command a large portion of resources in countries strapped for financial resources. Theodore and La Foucade (1999) go on to argue that "in the context of small island economies where the social security schemes are clearly major potential investors, it would seem to be rational for these institutions to be actively involved in the ***production efforts*** of these economies. Their active participation in the creation of productive capital and in the progress of social and economic value becomes even more critical, when one considers that capital has become even more scarce since the fiscal crisis and the balance of payments problems that precipitated the advent of structural adjustment. The fact is that it is the capacity of these countries to produce more real output that will provide the opportunities for higher standards of living. Investment of social security reserves should therefore contribute as far as possible to capital formation. In this way the social security schemes will be readily complying with the criterion of ***social and economic utility.***"

Mounbaga (1995) concurs with this position. While recognising that the investments had to meet the criteria of safety, liquidity and yield, he argues that the investment of the reserves has to comply with the criterion of economic and social utility. This is because "social security has an important role to play in mobilising supplementary national savings for the creation of productive capital and health and social infrastructures."

The role of social security in the economic development of countries has also been recognised by those charged with assessing the financial soundness and viability of the schemes. In the Third Actuarial Report of the St. Vincent and Grenadines Scheme (1996), the actuary wrote, " probably no other institution will be able to accumulate as much economic power in St. Vincent and the Grenadines as the National Insurance Scheme. ***The economic future of St. Vincent and the Grenadines is in part in the hands of the [National Insurance Scheme]***[9]. Strategic planning of its investments is essential." This view can be extended to all the other OECS countries. Even the ILO's Panel of Experts (1983) recognised that "good management of the investment policy of social security funds can and *should* help to complement the national economic policy in various ways."

The Singapore case clearly demonstrates the need to incorporate all of the objectives into a coherent single policy framework, as failure so to do will lead to imbalances in the system and in the non-attainment of the financial objectives of the system. In Singapore, the Central Provident Fund (CPF) was and is expected to provide not just a pension but is actively used as a means of facilitating economic growth and directing investments into areas desired by the government. The CPF activities include in addition to the provision of retirement income, homeownership, pre-retirement investments, life, home and health insurance, loans for tertiary education and compulsory medical savings account.

As Asher (1999) observes, the CPF is not "simply a social security scheme, but one which is the primary socio-economic-political planning and engineering tool for policy makers." This view is echoed by Shome and Saito (1980) who opine, "CPF has played a major role in the development of Singapore's social infrastructure and

[9] The emphases are mine.

has made possible a general sharing of capital wealth created in the economy." While the system may have achieved the economic objectives, it is questionable as to whether it will achieve the retirement income objectives.

Asher (1999) reveals that the CPF will be inadequate to provide the benchmark retirement income, and that the amount provided will be inadequate for many citizens. One of the reasons for this is the manner in which the funds are invested. The funds are required to be invested solely in government bonds, and there is no transparency in the investment process and the returns earned. He argues that the government ascribes an investment rate, which is lower than the rate actually earned, and this in effect implicitly taxes participants. This suggests that the CPF in Singapore may have been able to meet its various mandates, if it was allowed to invest more freely and if it was actually credited with the interest it earned on its assets.

Another possible reason may be the fact that the investment of the CPF funds was not carried out using a portfolio management approach. The government's focus was chiefly centred on economic development, paying insufficient regard to the primary objective of ensuring adequate retirement income for contributors. This makes the case for a portfolio management approach to the investment of social security funds, where all the objectives are considered together, rather than in isolation, and investment decisions are taken in the light of this. This would lead to the schemes defining clearly their objectives, and risk/return tolerance, which would lead to the establishment of investment guidelines that would guide investment decisions. The portfolio management approach would clearly spell out the responsibilities of the board and management as fiduciaries acting on behalf of contributors. It would ensure a systematic approach to the management of the portfolio and would also strengthen the position of the social security organisations (SSO), providing them with a tool for managing the partnership with the government.

This would also necessitate the establishment of adequate systems of control and governance to manage the portfolio. This approach calls for greater clarity in the definition of the relationship between the board and the management with the contributors. The trustee relationship which exist between the board and the contributors, is currently not well articulated, and this lack of clarity may be another reason why the SSO find it difficult to resist efforts of the government to direct the investment of the reserves. In the next section, the reform initiatives carried out in the OECS since the inception of the social security systems are discussed. As mentioned above, the reforms have been parametric in nature rather than structural.

3.7 Reform Initiatives of the Social Security Systems in the OECS

According to the classification of reforms by Schwarz and Demirguc-Kunt (1999)[10] the social security systems in the OECS underwent a major reform when the transition was made from the national provident fund (NPF) to the social security systems. The social security organisations assumed the assets and liabilities of the national provident funds and members became automatic members of the social security organisations. There were what some social security executive directors term "very

[10] They define minor reforms as changes made to existing public schemes primarily to delay fiscal problems, but sometimes to correct existing inequities. These include changes in the eligibility criteria, contribution and benefit structure or administration of the scheme. Major reforms are those which substantially change the system of pension provision from defined benefit to defined contribution or vice versa, or from payg to fully funded or vice versa. The introduction of a new system plus any changes to an existing payg system that includes a mandatory defined contribution pillar are also classified as major reforms.

generous" transition measures, as the balances accrued by contributors under the NPF were converted to contribution credits, entitling them to immediate entitlement to benefits.

In two of the countries, St. Kitts and Nevis and St. Vincent and the Grenadines, the accounts of the national provident funds were not merged with that of social security and are managed separately from those of the social security organisations. Upon retirement, former national provident fund members will receive a lump sum amount consisting of their contributions made plus the interest earned on the amount from the national provident fund and their pension from the social security system. This latter method is less expensive and has no financial implications for the social security system, though it increases the administrative requirements as the records for the NPF system are to be maintained separately. However, in 1988, the members of the NPF in St. Kitts and Nevis were allowed to draw down their balances in their accounts, and many took advantage of that opportunity.

Since the introduction of the social security system, the reforms undertaken have been minor and have been parametric in nature. The change has been mainly of the contribution ceiling, rather than the contribution rate. The rates have only been increased with the introduction of the employment injury benefits, when the employers' contributions have been increased in the range of 1% - 2%. Please refer to Table 3.5

Table 3.5
Parametric Reforms Undertaken by the OECS Social Security Organisations

Year	Contribution Rate	Income Ceiling Per Annum	Benefits[11]
Anguilla			
1982	10	24,000	A, S, I, SI, M
1994	10	36,000	A, S, I, SI, M
1997	10	48,000	A, S, I, SI, M
1999	10	60,000	A, S, I, SI, M
Antigua			
1972	10		A, S, I, SI, M,
2000	10		A, S, I, SI, M, EI, SE
British Virgin Islands			
1980	10	US$ 10, 400	A, S, I, SI, M,
1991	10	US$ 13, 800	A, S, I, SI, M, EI, SE
1998	10	US$ 18, 096	A, S, I, SI, M, EI, SE
Dominica			
1976	8	EC$ 12, 000	A, S, I, SI, M, MI,
1983	8	EC$ 24, 000	A, S, I, SI, M, MI
1985	10	EC$ 24,000	A, S, I, SI, M, MI, EI
1986	10	EC$ 24, 000	A, S, I, SI, M, MI, EI SE
1989	10 (7)[12]	EC$ 30, 000	A, S, I, SI, M, MI, EI, SE
1991	10	EC$ 36, 000	A, S, I, SI, M, MI, EI, SE
1994	10	EC$ 46, 000	A, S, I, SI, M, MI, EI, SE
1995	10	EC$ 60, 000	A, S, I, SI, M, MI, EI, SE
Grenada			
1985	10	EC$ 30,000	A, S, I, SI, M
1988	10	EC$ 36,000	A, S, I, SI, M
1995	10	EC$ 36,000	A, S, I, SI, M, MG
1998	11	EC$ 36,000	A, S, I, SI, M, MG, EI, RAP
St. Kitts and Nevis			
1978	10	EC$ 24, 000	A, S, I, SI, M
1984	10	EC$ 48, 000	A, S, I, SI, M
1986	10	EC$ 48, 000	A, S, I, SI, M, EI
1993	10	EC$ 62, 400	A, S, I, SI, M, EI
1996	10	EC$ 70, 200	A, S, I, SI, M, EI
1998	10	EC$ 78, 000	A, S, I, SI, M, EI
St. Lucia			
1979	10	EC$ 8,400	A, S, I, SI, M
1985	10	EC$ 12,000	A, S, I, SI, M
1991	10	EC$ 30,000	A, S, I, SI, M, EI
1993	10	EC$ 36,000	A, S, I, SI, M, EI
2001	10	EC$	A, S, I, SI, M, EI
St. Vincent and the Grenadines			
1987	5	EC$ 20,400	A, S, I, SI M
1995	5	EC$ 31,200	A, S, I, SI M
2000	6	EC$ 39,000	A, S, I, SI M, EI

Source: Data Provided By The Respective Social Security Organisations & Compiled From financial statements and other reports.

[11] A= Age pension; S = Survivors'; I = Invalidity, SI = Sickness, M, Maternity, MI = Medical, EI = Employment Injury; Se = Self-employed
[12] The Self-employed contribute 7% of their net income quarterly and the minimum contribution is $10.50 per quarter.

The other changes include the introduction of new benefits, mainly employment injury and the extension of coverage to the self-employed. There have also been amendments to the legislation to strengthen the legal authority of the social security organisations to enforce compliance. The legislation has added the power to garnish physical and financial assets in St. Lucia, the British Virgin Islands and St. Vincent and the Grenadines. In Antigua & Barbuda, Dominica and St. Kitts and Nevis, the legislation allows for the impounding of the physical assets of defaulting employers. In St. Lucia, the Law was amended to increase the retirement age to 65, but because of the heavy opposition by the public, this has been deferred. There has however, not been a comprehensive review of the legislation in any of the islands, though this is on the agenda for 2001 for the Antigua & Barbuda Social Security Board.

The signing of the Reciprocal Agreements between the OECS and CARICOM Member States may also be classified as a reform initiative, given the implications for the organisations. In the next section, a more in-depth look will be taken of the implications of the reciprocal agreements.

3.8 The OECS And CARICOM Reciprocal Agreements

This section will not look at the specifics of the Agreements in any detail, but instead will provide an overview of the Agreements and analyse their implications for the social security organisations.

The governments of the OECS and the wider Caribbean community for many years have attempted to work in unison on policies to foster co-operation, free movement of persons within the community and economic growth. This was the main reason for the attempted Federation in 1958. Even after the failure of that attempt in 1962, the countries still saw the need to work together and various organisations have been formed to foster that co-operation. Two of the more lasting and significant have been the Caribbean Community and Common Market (CARICOM) formed by the Treaty of Chaguaramas in Trinidad in 1973 and the Organisation of Eastern Caribbean States formed by the Treaty of Basseterre in 1981.

In June 1991, by the Declaration of Grand Anse, seven member governments of the OECS signed the Convention on Social Security in the Organisation of Eastern Caribbean States to provide for reciprocal agreements on social security between the States[13]. In November 1993, the CARICOM Agreement on Social Security was signed, and the reciprocal agreements were applicable not only to the OECS member-states but to the entire Caribbean community, thus widening the coverage for workers. Anguilla and the British Virgin Islands were not signatories to the initial Convention. Anguilla has since signed but the British Virgin Islands are still not party to the reciprocal agreement. Following the signing of the Conventions and Agreements, Member States had to pass the enabling legislation in their respective countries. By 1999, all of the signatory governments had passed the necessary legislation.

The main purpose of Conventions and Agreements was to foster unity among the member states in the area of social security, as this was recognised as a way of encouraging functional co-operation and regional unity. The Conventions and

[13] It should be noted that the idea of a reciprocal agreement between the Caribbean countries was proffered by John Compton, the then Premier of St. Lucia, during the debate introducing the National Provident Fund Act in St. Lucia in 1970.

Agreements protect workers entitlement to benefits and afford equality of treatment when workers move from one country to the next. Under the CARICOM Agreement the benefits covered are invalidity, disablement and old age or retirement pensions. The OECS Convention provides more comprehensive coverage and in addition to the benefits covered under the CARICOM Agreement, it also provides additional benefits from coverage of employment injury and occupational diseases, funeral benefits and sickness and maternity benefits. It can be seen that the CARICOM Agreement focuses solely on the long-term benefits, while the OECS covers both the short term and long term benefits. All workers, including those aboard ships, with the exception of those in the diplomatic and equivalent status are exempted, as these persons are exempted from contributing to the social security system. They, may, however register on a voluntary basis.

The signing of the Agreements has serious implications for the social security organisations and requires a commitment of time and resources, if the true benefits of these reciprocal agreements are to be realised. The integrity of the record keeping takes on great importance. The information must not only be accurate and readily available to provide the information to one of the other social security organisations, but it is important to keep track of the movements of the insured persons in and out of the system. In countries, where the eligibility criteria differ with respect to benefits, mechanisms will have to be introduced to ensure that neither persons nor the social security institutions are disadvantaged. It calls for harmonisation between and among the social security organisations with respect to their computer systems, so that the systems can "talk" to each other, and this will speed up the delivery of service and ensure the accuracy and validity of the claims made.

There are also implications for the management of the systems. The importance of good governance becomes pointedly obvious as the potential of increased claims against the systems rises. To qualify for a minimum pension in all of the systems, about ten years of contributions are required. Prior to the establishment of the Reciprocal Agreements, persons who had contributed for less than ten years would only qualify for a grant, and in some cases no benefit, if they had left the country, as social security does not provide a refund to contributors.

However, with the advent of the Reciprocal Agreements, all service is accumulated and each social security is then responsible for paying the portion of the pension, based on the number of years contributed. For example, if a person worked for three years in Dominica, four years in Anguilla and another four years in St. Lucia, prior to the reciprocal agreements, that person most likely would receive no pension from any of the systems. He would not have met the eligibility criteria for the award of a pension. In most cases, he would receive a grant only from the place of last employment. With the reciprocal agreements, the person will now receive at least a minimum pension, with Dominica responsible for paying 27% and Anguilla and St. Lucia 36.5% each of the pension due.

The reciprocal agreements have benefited workers and will foster greater movement of persons within the countries. However, countries need to review their employment law, for though both the OECS and CARICOM have signed agreements on the free movement of labour within the communities, work permits are still required for citizens of the member territories. At the Heads of Government meeting of the

OECS leaders in June 2001, it was agreed that there would be free movement of people between the Member States from January 2002.

The Reciprocal Agreements have strengthened the income security for workers in the OECS by providing more flexible eligibility conditions for benefits, particularly in regards to old age benefits. This may serve to further increase the role of social security as an important source of income in retirement, even with the existence of private provisions. In the next section, the private pension environment in the OECS is presented.

3.9 Private Pension Provisions In The OECS

It is not possible to provide a comprehensive coverage of private pension provisions in the OECS, because of the inadequacy of the data. However, this section will draw heavily on the survey results compiled by the Eastern Caribbean Central Bank (ECCB) and on interviews held with social security stakeholders, insurance and finance companies in the OECS in 1999 and 2001, to provide a landscape of private pension provisions.

3.9.1 Interview Findings

In this section, the findings from the interviews conducted with the nine insurance companies and the two finance companies in the OECS as well as findings in respect of private pension provisions by the social security stakeholders will be presented. The main purpose of interviewing the insurance and finance companies was to determine the type and number of retirement packages offered by the companies to provide a picture of the private pension landscape in the OECS. A secondary purpose was to glean some insight into the perception of the insurance and financial sectors of the services offered by social security organisations. The latter finding will be presented in Chapter Seven and a full description of the methodology and selection process will be presented in Chapter Five. In this section, findings from a survey to determine the private pension arrangements by the ECCB will also be presented to complement the information gathered from the interviews.

3.9.1.1 Private Pension Provisions By Social Security Stakeholders

Thirty-seven employers were interviewed in the OECS as part of this study and of that number sixteen provided a pension plan for all employees. One company in St. Vincent & the Grenadines provided a pension to management only and one in Grenada (a construction company) offered the plan only to established workers.

Table 3.6
Private Pension Plans in the OECS

Country	SSO	Tunions	EmpAssoc	Employers	TOT
Anguilla	1	0	1*	0	2
Antigua & Barbuda	1	0	0	4	5
British Virgin Islands	1	0	0	1	2
Dominica	0	1	0	3	4
Grenada	1	1	0	3	5
Montserrat	0	0	n/a	n/a	0
St. Kitts & Nevis	1	0	1*	2	4
St. Lucia	1	1*	0	1	4
St. Vincent & The Grenadines	1	0	0	2	3
TOTAL	7	3	2	16	28
No Interviewed	9	30	19	37	95

Source: Interviews * = pension plan to take effect by year-end 2001.

In addition a number of companies, especially in Antigua, provided a thrift plan for employees. This is in essence a defined contribution system, whereby employees contribute up to about five percent, matched by the employer and upon retirement receives the accrued balance plus interest. In many cases, employees are guaranteed a minimum return, usually 5% on their balances in the thrift account. All of the employers interviewed provided a gratuity to employees upon retirement based on the length of service.

Two trade unions, Dominica Police Welfare Association and the Grenada Teachers Union, offer pension plans to members, while one, the St. Lucia Teachers Union is in the advanced stage of planning and hope to implement the plan by year-end 2001. It is of interest that the unions with private pension plans are all professional unions. Some of the general trade unions are also planning to introduce private pension plans to members and one trade union in Antigua & Barbuda is in the advanced stages of introducing a medical plan for not only its members, but for all workers in the country.

Two of the employers' associations, the Hotel and Tourism Association in Anguilla and St. Kitts & Nevis expect to introduce a pension plan for their members to offer to their employees by year-end 2001. Seven of the social security organisations also offer private pension plans to their employees. Most of the pensions were mandatory for all employees who had passed their probationary period, except in the instances when the plan was offered only to senior or permanent employees. The majority of the plans offered full vesting after five years, while some had partial vesting after three or five years and full vesting after ten years. Only one company of those interviewed, Jonas, Brown & Hubbards in Grenada offered immediate vesting to staff. Only one plan harmonised its benefits with that offered by the social security, and this was a non-contributory plan by an international company. In that case, employees on retirement will get the difference between their pension entitlement from the company and that offered by the social security organisation. In all other cases, employees will receive full benefits from both the social security and the private pension plans.

Some companies disbanded their pension plans at the inception of social security in their respective countries but there appears to be resurgence in the implementation of private pension plans in the OECS. The main reason for the introduction of private pension plans was to provide additional income to employees, as the social security pension is expected to be inadequate to allow staff members to continue to enjoy the standard of living to which they had grown accustomed. It was also seen as a mechanism for attracting and retaining professional staff and a reward for service to the organisation (Interviews, 1999, 2001). Some of the plans were also introduced as a result of negotiations with trade unions representing employees. The plans are managed mainly by insurance companies, but some are managed in-house and by commercial banks.

3.9.1.2 ECCB's Survey of Employers

The ECCB also surveyed employers in the OECS to determine how many of them had pension plans. Four hundred and forty-six questionnaires were sent and one hundred and thirteen responses were received, giving a response rate of twenty-five percent. Thirty-five plans reported the existence of a pension plan giving a response rate of 31% based on the number of respondents and a mere 8% based on the number of questionnaires sent out. Plans were administered in-house in 31% of the cases, 51% by insurance companies and 11% by banks.

The Inland Revenue Departments in the islands were also contacted by the ECCB to obtain information on the number of registered plans. This information is not complete, as pension plans are not required to be registered in any of the countries, except for St. Vincent and the Grenadines. In the islands where income taxes are payable, to obtain income tax exemptions, the approval of the Inland Revenue is required. Three countries, Anguilla, Antigua & Barbuda and St. Kitts & Nevis do not charge income tax and so there is no such requirement. Table 3.7 below provides information obtained by the Inland Revenue Departments in the OECS with regard to registered pension plans.

Table 3.7
Registered Pension Plans with the Inland Revenue Departments In The OECS

Country	Registered	Managed By Insurance Company	Bank	Other
Anguilla	n/a	n/a	n/a	n/a
Antigua & Barbuda	13	8	4	1
British Virgin Islands	12	0	12	0
Dominica	14	3	4	7
Grenada	3	n/a	n/a	n/a
Montserrat	n/a	n/a	n/a	n/a
St. Kitts & Nevis	n/a	n/a	n/a	n/a
St. Lucia	27	10	n/a	17
St. Vincent & The Grenadines	31	6	n/a	25
TOTAL	100	27	20	50

Source: Nero & Felix (1999) "Review of Retirement Situation in the ECCB Area," A list of the employers surveyed or the companies registered by the Inland Revenue Department was not available and it is possible that the persons interviewed are included in the listing above.

3.9.1.3 Insurance Companies And Private Pension Provisions

The insurance companies play a pivotal role in the management of private pensions in the OECS with many of the private pension plans designed and administered by them. There are eight major life insurance companies operating in the OECS with four providing pension services. Of these four, two companies dominate the market, with sixty-seven percent of the group plan market and seventy-five percent of the annuity market. Of these two companies, one has the majority share of the group plan market (46%) and the other the annuity market (72%) (ECCB, 1999).

Table 3.8
Group Plans and Annuities Administered by Life Insurance Companies in the OECS

Country	No of Group Plans	Value of Group Plans EC$m	No of Annuities	Value of Annuities EC$m
Anguilla	0	0	0	0
Antigua & Barbuda	7	6.5	211	4.1
British Virgin Islands	n/a	n/a	n/a	n/a
Dominica	1	0.33	445	2.86
Grenada	29	19.2	815	5.66
Montserrat	4	3.69	14	0.2
St. Kitts & Nevis	4	0.57	28	0.11
St. Lucia	17	22.5	276	2.3
St. Vincent & The Grenadines	14	16.55	242	2.85
TOTAL	76	69.34	2031	18.08

Source: ECCB (1999), "Review of Pension Provisions in the ECCB Area."

A reference back to Table 3.2 would reveal that the countries with the lowest coverage of social security has the highest coverage of private annuities and group pension plans. In an attempt to explain the reason why there was a higher incidence of coverage in the Windward Islands, the ECCB (1999) asserts that this may because of a higher tendency to save through insurance and the aggressive nature of agents in the Windward Islands.

This may account in part for the high incidence, but it may also be due to the fact that a sizeable portion of the workforce, the self-employed and informal sector were initially left out of social security arrangements and so these persons had to seek alternative cover. It may also suggest that the introduction of the social security systems, despite the negative public perception and resistance (to be discussed more fully in Chapter Seven), heightened the awareness for the need to plan and prepare for retirement. It may also indicate an appreciation by social security members that social security is just one pillar in the plan for retirement. While social security is expected to form the basis of retirement income, it will be inadequate to meet all retirement needs, especially in countries where the contribution ceiling is significantly below the average wage. This may be akin to the "recognition effect," postulated by Cagan (1965), which asserts that when an individual is forced to participate in a pension plan he recognises for the first time the importance of saving for his retirement.

The insurance companies indicate that in recent times, there has been a growing awareness of the need to provide for additional income in retirement and increased demands for both annuities and group plans. In some cases, the insurance companies have aggressively marketed their products especially the annuities, but in other cases, they have been invited by employers to structure a private pension for employees and to conduct retirement planning seminars. The insurance companies however identified three challenges in expanding their coverage further that of (i) affordability, (ii) lack of co-ordinated efforts by government and (iii) a still lax approach to retirement by the population, especially among the young.

The insurance companies argue that the government has an important role to play in stimulating the market for private pensions and medical benefits coverage. They argue that if government would take the initiative of having a private medical and pension plan for civil servants, this would signal to private companies the need for making the same provisions for their employees. It is suggested that it would also exert pressure on companies to provide a private pension, as employees would demand this as a minimum condition of work. However, the insurance companies also acknowledged that cost may be a factor why there are not more annuities and group pension plans, however, if the demand increase, costs should fall.

This presents an opportunity for partnership building between government, social security and the insurance companies in sensitising persons of the need for and in providing complementary pension provisions that are affordable and appropriate to the needs of the insured persons.

3.9.2 Regulation Of Insurance Companies And Private Pension Plans

In the countries, where tax is payable, the government is fairly generous offering income tax deductions on contributions. To obtain this deduction, the companies must apply to the Inland Revenue Department. St. Vincent and the Grenadines is the only country requiring mandatory registration of all pension plans and the review of the applications is a joint exercise between the Inland Revenue Department and the Legal Department of Government. There is however no monitoring of the pension plan for adequacy of funding, separation of assets from that of the company and other issues of control, and the requirement of approval for tax deductions has been described by the ECCB as "stamp and file regulation."

The supervision of pension plans are thereby non-existent, and this will have to be addressed as a matter of utmost urgency as the provision of private pension plans rise. Another area requiring attention is the regulation of the sale of annuities by the insurance companies to ensure that the annuities are not only correctly priced but that they meet the needs of the people to whom they are sold. The governments of the OECS will do well to learn from the Robert Maxwell scandal and the mis-selling of private pensions in the UK. As the demand and market for private pension provision increase, government will have to institute measures to ensure that workers rights, funds and interests are protected.

3.10 Conclusions

This chapter looked at the social security environment in the OECS. It presented a historical perspective of the evolution of social security systems, from the inception of the national provident funds to the introduction of the social security systems. It identified the reform initiatives, which has taken place in the OECS, and argued that the reforms instituted after the introduction of the social security systems have been minor reforms of the parameters. The private pension environment was also presented, and in that section, the findings from the interviews conducted with insurance companies in the OECS was presented, as well as with the stakeholders with respect to the provisions of private pension plans. This, as indicated earlier, in no way gives a complete picture of the private pension provisions in the OECS, but demonstrates that companies and workers in the OECS are sensitised towards making alternative and complementary arrangements to social security for their retirement security. There is however still the opportunity for expansion, for given an estimated labour force of 284,994 (as at 1991), and the data gathered by the surveys, the ECCB estimates that for every 140 persons in the labour force only one has an annuity or individual retirement policy.

The implications of the introduction of the OECS and CARICOM reciprocal agreements were also discussed. A detailed analysis of the portfolio composition of the social security funds will be presented in Chapter Five.

In the next chapter the governance literature relevant to addressing the research question will be presented. It will be limited to the role of board composition on performance and applied to the social security organisations in the OECS.

CHAPTER FOUR - CORPORATE GOVERNANCE

"For any company that hasn't done well, one of the solutions starts with the board,"

Robert S Miller (cited in Byrne et al 1997)

4.1 Introduction

The last chapter provided a historical analysis of the evolution of social security systems and the reform initiatives undertaken in the Organisation of Eastern Caribbean States (OECS). It also presented the private pension environment and discussed the implications of the introduction of the reciprocal agreements between the social security organisations.

The purpose of this chapter is to present the corporate governance literature relevant to addressing the key research question, "how do governance factors impact on the performance and administration of social security organisations (SSO) in the OECS?" In this regard the focus will be on the role of board composition on performance. The corporate governance framework of the SSO will be presented and this will be applied to the literature.

4.2 Corporate Governance In A Social Security Context

Corporate governance has largely been identified with the private sector. The concept dates back to the 1930s, however, the importance of good corporate governance was brought to the fore with a series of recent scandals, example, the Maxwell Pension scandal, BCCI, Barings debacle, Kidder Peabody and the Sumitomo Copper scandal, in the 1990s. These scandals demonstrated clearly the importance of an effective system of internal control with an emphasis on the separation of functions, accountability and transparency of operations. In short, they demonstrated that good governance was a vital component of effective management and hence the sustainability of organisations.

In the social security context, the need for corporate governance is as legitimate as for private sector organisations. It may even be argued, that there is a greater need for good governance, as unlike the private sector, social security contributors have no choice as their contributions are mandatory, and so cannot opt out of the system.[14] In addition, they cannot diversify their "investment" in the social security fund. It is thus vitally important that the persons charged with the management of the social security systems do so in the sole interest of the contributors and the system. It is also important that this is done in a transparent manner and that the board members and management are accountable to the contributors.

Berle & Means (1932) have been credited with opening the debate on corporate governance. They argue that the need for corporate governance is a consequence of the separation of power from the owners to the managers of organisations. Berle & Means (1932) argue that as organisations become larger and shareholders hold stock

[14] It can be argued that persons who evade the system are exercising a choice, however, it must be borne in mind, that these persons are committing an offence and can and are in some cases, brought before the Courts to obtain payments. Even in Chile, where contributors have a choice of AFPS and Britain where they can opt out of the state system, these choices are limited, and these choices are part of the social security system. In Chile, apart from evasion, a person cannot decide not to join the system; neither can someone in Britain opt out unless they can prove that the individual or company pension is at least as generous as the government system.

in more and more companies, the shareholders no longer had the time to monitor the operations of the organisations. They contend that because of the separation of power, there exists conflict between the owners and managers, and so systems to manage the conflicts need to be implemented. Baysinger and Hoskisson (1990) define corporate governance as "the integrated set of internal and external controls that harmonise manager-shareholder (agency) conflicts of interest, resulting from the separation of ownership and control."

Gillion et al (2000) define governance of social security institutions as "the processes of consultation and decision making which determine the structure of the scheme, the institutional arrangements responsible for its administration, and the managerial and administrative functions, which relate to the implementation and supervision of social security schemes. It is also concerned with the interrelationship between national policy, national management and scheme management."

The definition by Gillion et al is more specific to social security schemes. It talks about processes rather than relationships: processes of consultation, administration and supervision. These are important elements of governance, but for these elements to have meaning or rather to serve as a system of control, there has to be some level of accountability.

The definition by Gillion et al (2000) alludes to the interrelationship between the national economy and the scheme's management, but does not mention how the systems impact on each other. It can be argued that national systems of governance influence and impact on the system of governance at the social security level. This finds support with Iglesias & Palacios (2000) who from a study of 80 countries found that governance at the macro level affected and influenced governance at the micro level.

The OECD (1999) sees corporate governance as involving "a set of relationships between a company's management, its board, its shareholders and other stakeholders." The OECD's definition echoes some of the sentiments of Berle & Means as both speak of the relationship between management and shareholders, but the OECD's definition goes a bit further by extending the relationship to the board and other stakeholders. This is consistent with the arguments in the more recent literature on corporate governance. The earlier writings on corporate governance view management as including both the board and top management of the firms (Berle & Means, 1932; Rostow, 1959; Baran & Sweezy, 1966, Mizruchi, 1983) and the more recent literature separates the two.

In the more recent literature, the board is seen as the mechanisms for control of management and management is defined as the "top full time officers of the organisation," (Herman, 1981). Mizruchi (1983) suggests that one possible reason for the change in the definition of management may be the widely circulated study of Burnham (1941) which presented an incorrect interpretation of Berle & Means' definition of management. Burnham (1941) claimed that Berle and Means (1932) argue that management was "in control of the policies and the boards of directors of the companies". This however, is not in keeping with Berle and Means (1932) definition, where no separation was made between the board of directors and the management of the company. However, even when a separation of the board and management is acknowledged, the board is the body assigned with the policy formulation and direction, while the management is seen to be responsible for the implementation of the policies and the day-to-day operation of the company.

4.3 Agency Theory

As mentioned earlier, agency theory is used to study the impact of governance on social security organisations. Agency theorists argue that the board with its legal authority to hire, fire and compensate management, safeguards invested capital and is therefore an important element of corporate governance (Williamson, 1984; Baysinger & Hoskisson, 1990). Agency theory analyses the managerial incentive problems that are induced by the separation of corporate ownership and corporate decision-making (Alchian & Demsetz, 1972; Jensen & Meckling, 1976; Fama & Jensen, 1983; Kosnik, 1987). The theory defines the relationship between management and stockholders as a contract between agents and principles in which the agent's behaviour is conditioned by the incentive structures that are implicitly or explicitly incorporated in the contract.

Agency problems arise in corporations because the agents stop bearing the full wealth effects of their own decisions if they do not own a substantial part of the corporation's equity. Under those conditions, the agents are likely to engage in behaviour that benefits their personal wealth or power but that is opportunistic and inefficient from the principals' point of view (Jensen & Meckling, 1976; Kosnik, 1987). Examples of such inefficient managerial behaviour are the excessive use of company resources for managerial "perks", which may range from free lunches to private jets (Jensen & Meckling, 1976; Kosnik, 1987), the adoption of a short-term risk-averse attitude in strategic investment decisions for the sake of stability and the protection of management's own control position (Lambert & Larcker, 1985; Kosnik, 1987), or the excessive pursuit of diversification as a strategy to increase the firm's size and the managers' associated prestige and status (Amihud & Lev, 1981; Kosnik, 1987).

In the social security context, the relationship is more complex, for practically all board members and management are members of the system[15] and thus shareholders, and should be interested in protecting their interests as well. However, as will be demonstrated later in the chapter, there exists a conflict of interests, which may impact negatively on performance. In Chapter Two, cases of social security systems in Latin America becoming bankrupt due to mismanagement, even where the board members and managers were members of the system were presented.

In the next section, the functions of the board will be examined as the board plays a major role in the governance structure of the organisation, and also because a substantial part of the governance literature is devoted to the impact of the board's composition on performance.

4.4 What Are The Board's Functions?

As mentioned above, agency theorists see the board's functions as hiring, firing and compensating management and safeguarding the invested capital of the organisation. The *Corporate Directors Guidebook* (1978) states that the fundamental responsibility of an individual corporate director is to "represent the interests of shareholders as a

[15] In a few instances, some board members are not members of the social security system. This arises where the board members are either civil servants or self-employed in countries where these groups are not mandated to contribute.

group." This responsibility can be extended to the entire board as the board is made up of individual directors. This responsibility in turn, obligates the board to act with care in fulfilling its responsibilities, to be loyal to the organisation, and not to allow personal interests to function to the detriment of the shareholders it represents (Brodsky & Adamski, 1984: Feuer, 1974; Stohr, 1975, Kesner & Johnson, 1990). This then places the board in a fiduciary relationship with shareholders (Stohr, 1975; Kesner & Johnson, 1990).

The Association of Investment Management and Research (AIMR) *Standards of Practice Handbook* (1996) defines a fiduciary as "an individual or institution charged with the duty of acting for the benefit of another party in matters coming within the scope of the relationship between them." It states that the duty required in a fiduciary relationship exceeds that which is acceptable in many other business relationships because the fiduciary is in a position of trust. Fiduciaries it argues "owe undivided loyalty to their clients and must place client interests before their own," (pg. 83).

AIMR (1996) goes on to explain that to hold someone to a fiduciary duty generally means to hold him or her to a higher standard of loyalty and care than the standard to which most people are held. AIMR charges that the fiduciary must always act prudently and with discretion regarding the assets of others and a fiduciary is charged with having more knowledge than the average person. AIMR asserts that conflicts of interest may arise between the fiduciary and the client and the imposition of a fiduciary duty attempts to eliminate any conflicts or improprieties by imposing a high standard of loyalty and care on the fiduciary.

This means that board members owe a duty "over and above" to the shareholders and stakeholders whom they serve, and the interest of the organisation must be paramount in all decisions. It emphasises and reinforces the view held by Zald (1969) that board members are servants of the organisation. Board members are to serve and to be of service to the organisation and to the shareholders/stakeholders.

From a survey of the literature, the board's functions can be placed in three classifications: the board serving as (i) a means of control, conflict resolution and maximisation of shareholders' wealth, (ii) a mechanism to ensure continuity of management and (iii) a source of information and advice to management.

Brudney (1982) sees the board of directors as performing two main functions, both identified to the first classification above. He argues that the board main functions are to goad managers to perform adequately their wealth maximising task and to ensure managers' integrity in dividing corporate assets between themselves and stockholders. This is consistent with the views of the agency theorists who see the key role of the board as being an effective governing and monitoring mechanism (Boeker, 1982), and which is also echoed by Kesner & Johnson (1990), Byrne et al (1997), Williamson (1985) and Baysinger & Hoskisson (1990). Kesner & Johnson (1990) argue that the primary responsibility of the chairperson of the board is the evaluation of the management's performance in light of shareholder's interest. It can, however, be argued that this is not solely the function of the chairperson, but of the entire board.

The role of the chairperson is to manage and provide direction and leadership for his board and management but this does not detract from the responsibility of the individual board members. Baysinger & Hoskisson (1990) carries this point further by arguing that the efficient management of shareholder-manager relations is an important function of the board and that shareholder's interest must be safeguarded by controls on management. Byrne et al (1997) take a slightly broader view of the control function and posit that a board's responsibilities lie in ensuring that strategic plans undergo rigorous scrutiny, managers are evaluated against high performance standards and the succession process is planned. This argument incorporates the agency theorists' position in relation to the board's role as one of hiring, firing and compensating management. Williamson (1985) sums up the first classification of the functions of the board as "a governance structure safeguard between the firm and owners of equity capital and secondarily as a way by which to safeguard the contractual relation between the firm and its management".

Consistent with the second classification of the board's functions, Zald (1969) posits that boards of directors were created and recognised in law in order to ensure continuity in the management of organisations. They are, he argues, charged with the proper use of resources in pursuit of organisational goals, and prudent action includes appointing and perpetuating effective management of the organisation and overseeing the work of such management. The board, Zald (1969) argues, acts as "the agent of the corporation," to oversee organisational activity, on behalf of the owners. He emphasises that while the board is often seen as agents of the owners, legally, the board is "the servant of the corporation," vested with corporate control. This is a very important distinction and is consistent with the fiduciary responsibility of the board as argued by Stohr (1995).

In relation to the third classification, Mace (1976) states that in the 1960's chief executive officers (CEO) and directors opined that boards serve as sources of advice, counsel and discipline to management, perform a corporate conscience role and were the "in-place" legal entity to replace the CEO if he had to be replaced for any reason. Parsons (1960) sees the board as a mediating structure between the organisation and the larger society. This is consistent with his distinction of the three levels of organisational structure – technical, managerial and institutional. The technical level corresponds to the techno structure, the managerial to top management and the board to the institutional. In the same vein, he sees the role of management as policy formulation and decision-making. If management's role is policy formulation and decision-making, Parson, is thus suggesting that the true power lies with the management and the board is mainly to secure the resources needed from the external environment to facilitate management's decision-making. Mace (1976) however, contends that there has been a major re-thinking by boards of their roles, functions and responsibilities. He asserts that boards are no longer content with a passive role and view themselves as responsible to the owners - the stockholders.

4.5 Who Is In Control: The Board or Management?

From the foregoing, it appears that there can be little doubt that the board is in control of the organisation, given that it is responsible for hiring, firing, setting policy, evaluating performance, compensating, counselling and disciplining. However, there are those who argue that the board in theory is in control of the organisation, but in reality, it is not: management controls the organisation. Management is in charge because of the control over the information flow (Zald, 1969; Mace, 1971; Daily & Johnson, 1997) and the nomination and appointment process for the board (Bacon &

Brown, 1975; Westphal & Zajac, 1995). The dual role sometimes played by the CEO serving also as the chairman of the board (Kesner & Johnson, 1990; Daily & Johnson, 1997) and the similarities and common interests shared by the board and management (Westphal & Zajac, 1995) also serve to undermine the independence, separation and control of the board.

Bacon & Brown (1975) suggest that the CEO may use his/her control over the nominating process to choose board members who, at the very least are not antagonistic to what he/she chooses to do. Westphal & Zajac (1995) longitudinal study of 413 Fortune/Forbes 500 companies from 1986 and 1991 supports this suggestion. They found that social psychological and socio-political factors lead CEOs and existing board members to favour new directors who are demographically similar to them. They also found that the party who obtains its preference is dependent on the relative influence of CEOs and boards.

Their findings indicate that (i) in firms in which the CEO is relatively powerful, new directors are likely to be demographically similar to the incumbent CEO; (ii) when the boards of directors are more powerful than the CEOs, new directors resemble the existing board rather than the CEO and (iii) increased demographic similarity between CEOs and the board is likely to result in more generous CEO compensation contracts.

It may be the "demographic similarity " of boards rather than the board as institution that may give rise to the ineffectiveness of boards. In such an environment there may be little difference of opinion, limited number of new ideas, and persons following group norms even when they are opposed to the course of action decided upon.

People often forget that they are the "servants of the organisation," and governance structures become even more important to ensure that persons fulfil their fiduciary responsibility. It also means that shareholders/stakeholders have to become more vigilant and activist to ensure that their best interests are served. This can be done through demands for financial statements, statement of accounts, annual general meetings and periodic independent performance reviews.

The concept of influence and power determining the choice of board members is voiced by Herman (1981), Alderfer (1986) and Zald (1969). Herman (1981) argues that because of their involvement in the day-to-day operations, management has gradually assumed control over the corporation. He however contends that the board of directors, as well as stockholders, and other outside elements can serve as constraints on the activities of the company. This constraint can be the power of the board to oust management, though Herman concedes that this is rare and is exercised mainly in times of poor performance. The most effective constraint that can be exercised on the management and the board is that of accountability. In the case of management, accountability is to the board and shareholders and in the case of the board it is to the shareholders. Where persons have power but no accountability, there is wont to be abuse of that power and ineffective representation of the shareholders/stakeholders interest.

Alderfer (1986) asserts that the CEO's influence will be determined by the stage of his career, his openness to questions by the board and the subgroup dynamics of the board. Alderfer (1986) also contends that the CEO style may be the most important factor shaping the dynamics of board-management relationship. The CEO, he offers, is able to do this by the kind of issues he brings to the board, by the quality and timeliness of the information provided and by the responses to questions posed by the board. However, Zald (1969) argues that in any relationship, each party brings into the relationship resources and it is the balance of those resources for specific situations and decisions that will determine the relative power enjoyed by the board and management.

Byrne et al (1997) argue that for a board to be effective, it has to provide strong oversight that goes beyond simple rubber-stamping the CEO's plans. They argue that perhaps the most important quality of a board is the presence of directors who are active, critical participants in determining a company's strategies. They also advocate the independence of the board from the management and a limit on the number of inside directors on the board.

However, Westphal & Zajac (1995) argue that the commonly held assumption that outside directors are more likely to exercise independent judgement in board decision-making may be suspect. It, they reason, ignores the possibility that from a social psychological perspective, outside directors who are demographically similar to CEOs may be akin to inside directors. The issue of the inside/outside director will be explored in much greater detail in the next section of this chapter.

Byrne et al (1997) recommend the barring of directors and their firms from doing consulting, legal or other work for the companies on whose boards they serve. They also advise against interlocking directorships, whereby CEOs serve on each other's board, and believe that perks, such as pension rights cause directors to align themselves too closely to management. The Cadbury Report (1993) also recommended that directors should be free from any business or other relationship, which could materially interfere with the exercise of their independent judgement, apart from their fees and shareholding. Byrne et al (1997), however, contend that the best guarantee that board members will act in the interest of shareholders is the ownership of significant stockholdings in the company that they oversee.

In the social security context in the OECS, there is not uniformity in the balance of power. In some organisations, the ministers hold the balance of power, in others the boards and yet others, the executive directors. Some of the factors, which emerge for the differences, are the level of autonomy and independence from government's control, expertise and experience, personality and character.

4.6 Board Composition

The board composition is seen as the major factor affecting the performance of the board and consequently of the CEO and the organisation (Judge & Zeithaml, 1992; Kesner & Johnson, 1990). The board is seen as comprising inside and outside directors and arguments are presented both for and against the different classifications.

Inside directors are employees of the organisation, who usually hold a high level executive position and devote substantial full time attention to the affairs of the corporation or one of its subsidiaries (Corporate director's Guidebook; Kesner & Johnson, 1990). Persons who have been former employees or are otherwise closely associated with a firm are also classified as inside directors (Cochran, Wood & Jones, 1985; Judge & Zeithaml, 1992). On the other hand, an outside director is defined as an outsider or non-executive director, who is not an employee of the firm (Kesner & Johnson, 1990). The classification of the director is expected to determine his/her objectivity, commitment and dedication and thus determine the level and quality of the contributions to the organisation. Outside directors are usually deemed to be better but this position is not held by everyone, and in the next section the different positions will be presented.

In the social security systems in the OECS, most of the board members would fit the classification of outside directors, with only the executive director being the insider. However, in a few instances, the deputy director, though not legislated sits on the board and some of the directors recruited outside the organisations were former employees of the social security organisation, and would fit the classification of inside directors as described by Cohran et al (1995). It is also arguable that an outside director who has served in that capacity for a substantial length of time, say in excess of ten years, may also be deemed as an "insider." He would be party to many of the past decisions and may be defensive about them. This may be one of the reasons why the Cadbury Report (1993) recommended that non-executive directors should be appointed for a specified term with no automatic reappointment and that any directors' contract in excess of three years should be done with shareholders' approval.

4.6.1 Inside vs. Outside Directors

Kesner & Johnson (1990) assert that inside directors bring specialised knowledge and experience because of their direct involvement in the day-to-day organisational activities. Judge & Zeithaml (1992) share this position and see inside directors as providing valuable insights and information to boardroom discussions thus allowing the boards to be more involved in the strategic decision-making process. This, Rosenstein (1987) asserts leads to a balance between informed discussants of strategy and objective monitors of strategic behaviour. All of this, Judge & Zeithaml (1992) argue results in greater board participation in the strategic planning process, better information flows, innovation of strategies and strategic change, higher levels of spending on corporate research and development and a lower incidence of golden parachutes in Fortune 500 firms.

Bacon & Brown (1975) argue that inside directors raise issues that the CEO may otherwise ignore and they serve as a direct communications link between the board and the remaining organisational members. It is, however, difficult to see inside directors bringing to the agenda items that the CEO would otherwise ignore, given that these directors report directly to the CEO and in many cases sit on the board at his invitation, or because of his lobbying for their inclusion.

This view is supported by agency theorists (Mace, 1971; Mintzberg, 1983; Pfeffer, 1972; Kesner & Johnson, 1990; Louden, 1982). Agency theorists argue that because inside directors well-being are tied directly to the financial success of the firm, their loyalty to top management is likely to be based on the CEO's competence (Fama, 1980; Fama & Jensen, 1983). Insiders, who work for the CEO on a daily basis, cannot be expected to exercise their duties properly in monitoring and controlling his performance (Mace, 1971, Mintzberg, 1983; Pfeffer, 1972; Kesner & Johnson, 1990). Loudon (1982) sums up the position of inside directors reporting on the CEO by arguing "it is unreasonable to think that a subordinate director can successfully challenge the chief executive at board meetings."

Baysinger & Hoskisson (1990) maintain that the involvement of inside directors is a conflict of interest as inside directors' ties with the CEO can compromise their effectiveness as decision controllers in the cases in which management opportunism is the cause of financial losses. However, Mizruchi (1983) suggests that while the conflict of interest is a legitimate concern, it is a bit overdrawn and the key issue is one of incentives. Though, the conflict of interest problems are relevant and important in the discussion of the inside director, Mizruchi makes a point, when he argues that incentives are what will decide whether inside directors submit to the demands and wishes of the CEO or take an independent stand. The balance of power is also relevant here, for if the CEO does not enjoy the confidence of the board, this may provide the opportunity for the inside directors to challenge the position of the CEO, contrary to the position of Louden (1982). Williamson (1985) submits that "so long as the basic control relation of the board to the corporation is not upset, management's participation on the board...permits the board to observe and evaluate the process of decision making as well as the outcomes...an important function in view of the inadequacy of formal procedures for grievance."

Kesner & Johnson (1990) on the other hand posit that outsiders are placed on the board for three main reasons: (1) the breadth of their experience and knowledge, (2) the contacts they have which may enhance management's ability to secure scarce external resources and (3) the independence they have from the CEO. They contend that while insiders bring *depth* to the board with their specialised knowledge of the company, outsiders bring *breadth* (emphasis added). Outside directors have experiences which span various companies and industries (Bacon & Brown, 1975; Firstenberg & Malkiel, 1980; Williams & Shapiro, 1979); often play an important role in securing scarce resources and in influencing or controlling external organisations (Pfeffer, 1972; Pfeffer & Salancik, 1978; Kesner & Johnson, 1990); are better able to provide independent assessments of actions taken by the firm and insure that there are proper "checks and balances" on management (Vance, 1983).

Pfeffer (1972) argues "organisations use their boards of directors as vehicles through which they coopt, or partially absorb, important external organisations with which they are interdependent." Pfeffer suggests that this strategy of co-optation involves a trade-off between the loss of some degree of privacy of information and control and the continued support of the external directors. Outside directors are deemed to be less influenced by the relationship with the CEO and are able to monitor the actions of the CEO and in fact top management. According to Knepper (1978) "an outside director's independence *should be*[16] his most distinguishing characteristics...[and he is] expected to exercise a healthy scepticism and an alertness to possible wrongdoing on the part of corporate insiders." Boeker (1992) contends that outside directors can fulfil this monitoring role more effectively since the inside directors' objectivity will be impaired by their dual role as full time managers.

There are however, researchers who argue that the outside director is not as independent as many suggest and while the key role is to safeguard shareholders' interests, the position of the outside director is sometimes compromised. Baysinger &

[16] My emphasis.

Hoskisson (1990) argue that outsiders often lack the type of information needed to be truly effective in controlling decisions. Kosnik (1987) notes that the theory of managerial hegemony depicts the board as an ineffective governing institution and attributes its ineffectiveness to the outside directors' lack of independence from the incumbent management, though empirical evidence to support this theory is scarce. The theory of managerial hegemony describes the board as a legal fiction: a co-opted appendage institution that despite its formal governing power over management is in fact dominated by the corporate management. This domination makes the board ineffective in alleviating conflicts of interests between management and stockholders (Galbraith, 1967; Mace, 1971; Herman, 1981; Vance, 1983; Wolfson, 1984; Kosnik, 1987).

The extent to which outside directors are able to perform the roles expected of them and serve as independent barometers of performance will depend on several factors. These include, but are not limited to, area of expertise and competence, knowledge of the organisation and the industry in which the organisation is situated and appreciation of the needs and demands of shareholders/stakeholders. Personal integrity and commitment to the standards demanded by professional organisations, the ability to be impartial in the evaluation of options and recognition of the mandate to serve are also factors influencing the performance of boards of directors. The ability to separate social ties from business decisions is also important for as Westphal & Zajac (1995) argue the social relationships may compromise the independence of the outsider director. Ultimately, however, the performance of directors will depend not so much on their classification as on their expertise, knowledge, professionalism, and very importantly, integrity. In the next section, the corporate governance literature is analysed within a social security context.

4.7 Where And How Does Social Security Fit Into The Corporate Governance Literature?

Social Security institutions are not organised as private corporations. Social security organisations do not have profit as an explicit objective though they are mandated to invest the funds of the board given due consideration to safety, liquidity and yield. They are either established as departments of government or as statutory bodies by government. Their main aim is the provision of benefits to the contributors and in some countries to all citizens who meet various criteria whether they contribute or not to the system. As demonstrated in Chapter Two, social security systems are financed on different basis, PAYG, partially funded or fully funded, and the method of financing will determine the extent to which the organisations have reserves to invest. The "not-for-profit" objective, as was also highlighted in Chapter Two, played a key role in the manner in which social security organisations have gone about their business.

The fact that these organisations are also subject to government directives is also another important element in understanding how the organisations operate. In the corporate governance literature the board is seen to be the institution that has the power to fire, hire and compensate, and thus serve as a mechanism to ensure that management acts in the best interest of the shareholders. With social security organisations, the power to hire, fire and compensate, not only management but also the board, lies with the minister responsible for social security. Hence the minister is the one, who theoretically, and in many cases in practice, wields the power in the relationship.

Though most of the social security organisations are established as separate entities with a right to sue and be sued in their own name, they are often not treated as autonomous institutions. The comments made by Romano (1998) in an address on the reforms at the National Insurance board (NIB)[17] of Trinidad & Tobago is relevant to the social security organisations in the OECS. He declared that the "NIB is not an autonomous agency." He went on to explain that "while its board is tripartite in nature, representing Government, Business and Labour, and it does not operate on a Government subvention, that is, it is self-financing, it is still subject to ministerial and hence Government influence, and to a certain degree, control. By law it is subject to ministerial and hence governmental approval in critical areas of its operations, for example, its human resource function, the structure of its benefits and contributions, and its investments."

This makes the early definition of management in the corporate governance literature, where the board and top management are deemed to be "management," more applicable to social security. The later definition where the board is seen as the control mechanism and the management refers to the full time top executives of the organisation is not as applicable. This gives rise to a situation where the minister assumes the role of management and the board, in addition to his role as regulator. This opens itself to abuse of power and gives rise to a series of questions:

- Can the minister effectively provide that system of control?

[17] Trevor Romano was the director of the NIB at the time. He passed away in December 2000.

- Does he/she possess the expertise to carry out the responsibilities assigned?
- What then is the purpose of the board if the minister is the one with the control?
- Is there a conflict of interest between the Minister's role of regulator and that of putting forward government's request for loans or other investments?
- What impact does this have on the management by the board and the executive director?

These questions will be addressed in the following section, using the SSO in the OECS to provide the analysis.

4.7.1 Synopsis of the Social Security Arrangements in the OECS

Each of the OECS islands has a social security/national insurance organisation established as a statutory body with the right to sue and be sued in its own name. These statutory bodies are not part of any government department and are established as separate entities, but each falls under the mandate of the Minister of Social Security. In some countries, this portfolio is held by the Prime Minister, in others, the Minister of Finance and in others by the Minister of Health (refer to Table 4.1).

Table 4.1 was compiled from the Acts of Incorporation of the various countries and demonstrates the appointing authority for the governance structure of the organisations. This clearly shows the similarities between the social security systems in the OECS, but it also highlights the differences. In chapter six we test whether the differences are important determinants of performance.

In all of the islands, the board is appointed by the minister, cabinet or governor-general or governor-in-council. This is a differentiating fact from private organisations, where the boards are appointed by the shareholders. The appointment process by the government has led to charges of politicisation, which usually sees the appointment of persons on political patronage rather than on merit. This issue is discussed in Chapter Seven.

Table 4.1
The Appointing Authority For the Governance Structure In The OECS

Governance Structure	Appointing Authority								
	ANG	ANT	DOM	GRE	MON	SKB	SLU	SVG	BVI[18]
Board	Min	Gov	Min	Min	GovC	Min	Min	Cab	Min
Chairman of the Board	Min	Gov	Min	Min	GovC	Min	Min	Cab	Min*
Deputy chairman	Min	Gov	Min	Min	GovC	Min	Min	Cab	Min*
Government Rep	Min	GovM	MinN	MinCab	n/a	MinN	Min	MinCab	n/a[19]
Employees' Rep	Min	Govc	MinN	MinR	GovCc	MinC	MinR	MinC	MinC
Employers' Rep	Min	Govc	MinN	MinR	GovCc	MinC	MinR	MinC	MinC
Director	GovC	PSC	Min	BOD*	GovC	BOD+	BOD*	Cab	Gov
Deputy director	N/A	PSC	BOD	BOD	GovC	N/A	BOD	Cab	Gov
Investment Committee	Min	Min	Min	Min	Min	Min	Min	Min	Min
General Staff	BOD	Dir*	Dir*	Dir+	BOD	BOD	Dir+	Dir*	BOD

Source: Acts of Incorporation of the respective countries

In all of the islands, except Dominica, there is a tripartite board with members representing labour, business and government. There are however, significant variations in how the board members are selected. In Grenada and St. Lucia, the Acts stipulate that the recommendations arise from the respective workers and employers' bodies, but the implementation process is different. In Grenada, the nomination

[18] Please see Appendix 2 for the Legend of the abbreviations.
[19] The Acts in the British Virgin Islands and Montserrat do not make any specific reference to the nomination of the government representatives. However, it is safe to assume that those nominations are made by the appointing authority: the Minister in the case of the BVI and the Governor-in-Council in the case of Montserrat.

ensues from the Trade Union Council, while in St. Lucia, the trade unions are requested to make nominations individually, and the minister selects the representatives from the names submitted. There is however, no direct feedback to the unions informing them of the persons selected. In all other cases, the groups nominate their representatives ***in consultation***[20] with the minister. In some cases, like Anguilla, there are no provisions for consultations or recommendations from the interest groups, and in the case of Dominica, there is no mention of representation from the interest groups.

However, the minister still has power over the nominations as he has the discretion to recognise the body, bodies, person or persons from whom the nominations will arise. This point was clearly articulated by the Minister of Labour, Social Security and Co-operatives of Trinidad and Tobago when in an address to Parliament on the national insurance system in 1972, he informed the House that ***"The minister's residual discretion now lies in his recognition of associations and representatives of the interest groups".***

The minister, cabinet or governor appoints the executive director in five out of the nine islands. In three others, the board appoints the executive director, but in the case of two islands, Grenada and St. Lucia, the appointment is made on the approval of the minister, thus the power resides with the minister. In St. Kitts, though the executive director is appointed by the board, the remuneration and terms of conditions is done

[20] The emphases in this section are mine.

with the approval of the minister, and this in effect gives him the power of appointment.

A read of the debate in Parliament during the passage of the Bill to establish the Social Security/National Insurance Board and comments made by trade unions, employers organisations and the general public in the OECS reveal very little concern about the power entrusted in the minister. From the available information, concern appears to have been raised only in the British Virgin Islands. The Opposition was very concerned about potential government interference and mismanagement and during the Committee Stage of the Social Security Bill, the Opposition requested several amendments to ensure that there were "checks and balances" on government so that the money of the Fund would not be "frittered away."

It is therefore not surprising that this is the only island where the chairman and Deputy chairman of the board are appointed with the ***concurrence*** of the Leader of the Opposition. It was also as a "check and balance" that the Opposition insisted that the terms and conditions of the appointment of the executive director, the remuneration of the board and other committees are to be determined by the Legislative Council, where both Government and Opposition have a vote.

We note wide-ranging power residing in the office of the minister. In all of the islands, except Montserrat and Antigua & Barbuda, where it is the Governor-in-Council and Governor-General respectively, the Minister has power to terminate the appointment of the board members "***if in his opinion***" the member is unfit to continue office or incapable of performing his duties. In St. Vincent and the Grenadines, the

Minister may terminate the appointment solely because he ***"thinks it expedient so to do."*** The Social Security Act in St. Kitts and Nevis initially stipulated that the Minister could terminate the appointment of any member ***"for misbehaviour, physical or mental incapacity,"*** but the Act was amended in 1983 to the wordings used in Table 4.2 which summarises the terminating authority in the islands.

Table 4.2
The Terminating Authority in Respect of the Board Members and the Directors In The OECS

Country	
Anguilla	The Minister may declare the office of any member vacant, *if in his opinion,* the member is unfit to continue office or incapable of performing his duties.
Antigua & Barbuda	The Governor-General may declare the office of any member vacant, *if in his opinion,* the member is unfit to continue office or incapable of performing his duties.
Dominica	The Minister may declare the office of any member vacant, *if in his opinion,* the member is unfit to continue office or incapable of performing his duties.
Grenada	The Minister may declare the office of any member vacant, *if in his opinion,* the member is unfit to continue office or incapable of performing his duties.
Montserrat	The Governor-in-Council may declare the office of any member vacant, *if in his opinion,* the member is unfit to continue office or incapable of performing his duties.
St. Kitts & Nevis	The Minister may terminate the appointment of the chairman and deputy chairman, *if he thinks it desirable or expedient so to do.* The office of the Workers' and Employers' representatives can only be terminated *on the advice of the respective organisations.*
St. Lucia	The Minister may declare the office of any member vacant, *if in his opinion,* the member is unfit to continue office or incapable of performing his duties.
St. Vincent & The Grenadines	The Minister may terminate the appointment of any member *if he thinks it expedient so to do.*
Tortola	The Minister may declare the office of any member vacant, *if in his opinion,* the member is unfit to continue office or incapable of performing his duties.

Source: The Acts of Incorporation of the Respective countries.

This table was also prepared from the Acts of Incorporation and highlights the power entrusted in the minister, and emphasises the points made earlier about the minister having the power of control that is normally assigned to boards in private corporations. The ability of the board and the executive director to fulfil the mandate with which they are charged and to ensure the long-term viability and sustainability of the schemes may be compromised by this concentration of power in the hands of one person.

The Acts, apart from Grenada and St. Lucia, are generally silent on the termination of the executive director, but since they, except in St. Kitts & Nevis are members of the board, it can be argued that their appointment can be terminated on the same grounds as the other directors. However, it can be argued that because the executive director is an ex-officio member of the board, who is appointed on a separate work contract, he/she cannot be terminated on the same grounds of the other board members. In Grenada and St. Lucia, the Acts stipulate that the board, ***with the approval of the minister*** may terminate the appointment of the director for inability to exercise the functions of the office (whether arising from infirmity of mind or body or from any other cause) or for misconduct.

4.8 Who Is In Control of the Social Security Organisations in the Organisation Of Eastern Caribbean States: The Government/ Minister, Board or Executive Director?

In the corporate governance literature, the relationship is between the board-management-shareholders, while in the social security industry, the relationship is much broader and includes both a macro and micro level relationship. There is the relationship with the government-minister-board-management-contributors-beneficiaries. It is this complex relationship, with each party having different needs and interests that make it important to reconcile the differing interests. The minister has the power to appoint, dismiss and compensate the board and the executive director. Given that the minister is a member of cabinet, he/she usually informs cabinet of his choices for the board, and in many cases, other cabinet members also have an input.

There is very little evidence that the executive director influences the appointment of the board in the OECS. In Dominica, the management of the organisation was asked for the first time in 2000, to make recommendations for the board, and some of their recommendations were accepted. In the British Virgin Islands, the executive director was asked for recommendations and not one of the persons put forward was appointed. In St. Vincent and the Grenadines, when the government changed in 2001 and the board was disbanded, the executive director in a meeting with the minister requested that in the interest of continuity, the minister consider re-appointing some of the previous board members. This request was not granted.

In many of the countries, the Acts give the minister the power to give specific and general directions to the board, investment committee and executive director. The Acts make little provision for separation of functions and the potential exists for serious conflict of interest, as the minister has power to direct the day-to-day operations, participate in the policy formulation and decision-making, as well as regulating the operations of the board. The board submits yearly to the minister reports of its financial operations, investment and other activities. The minister appoints or approves the appointment of the external auditor and actuary, who are both to give independent assessment of the performance of the board. This is the reason why Romano (1998) argued that the social security organisations, though meant to be autonomous, are not, as they are subject to government interference in every aspect of their operations.

This situation is open to abuse and the situation with the Medical Benefit Scheme in Antigua & Barbuda demonstrates so clearly what happens when there is no separation of functions and hence no system of internal control. The Medical Benefit Scheme is a statutory organisation established "for the provision of such financial and other assistance towards the costs of medical benefits, to such class or classes of persons in such circumstances and subject to such conditions as may be prescribed by regulations," (Medical Benefits Act, 1978). The Medical Benefit board consists of seven persons appointed by the minister for a period of three years and he has the power revoke any appointment if he ***"considers it expedient so to do".***

The Funds of the Scheme are vested in the board, which is charged with the administering of the Scheme. Though the board is charged with the administration of the Scheme, the minister is assigned such power, that it almost makes the board and the director appear redundant. The director who is the chief administrative officer of the Scheme performs his functions under the ***supervision*** of the minister who may ***"give such direction to director or other person or body having duties under the Social Security Act, 1972, in connection with any matter concerning the Scheme***

including the disposition or disbursement of any funds belonging thereto as he may think necessary or desirable"(Medical Benefit Act, 1978).

The Act goes on further to stipulate that any such direction shall be in writing under the hand of the minister or some person lawfully authorised by him in that behalf and every person or body to whom it may be directed ***shall be bound to obey the same.*** The Act goes on to stipulate that all monies collected on behalf of the scheme shall be deposited into a general account, disbursement from which shall be made ***only on written instructions of the minister.*** In addition, two or more persons designated by the Minister shall control all other accounts of the Scheme.

The entire structure of the Medical Benefit Scheme violates all elements of good internal control. The minister not only appoints the board and director, he, and not the board provides supervision of the director. He also authorises payments from the accounts and he is the one to whom all financial reports are to be submitted. In essence, the director and board are under the direct control of the minister.

In a case of misappropriation of funds, the Prime Minister of Antigua & Barbuda ordered the three top personnel of the Medical Benefits Scheme to be prosecuted and ordered the dismissal of the entire board (Outlet, 6/4/01). This followed an interim report of an audit into the allegations. The report charged, "as a board with fiduciary responsibilities for a scheme, they failed to establish or provide for the establishment of a controlled environment in which fraudulent activities as well as errors would not go undetected in the ordinary course of business. In fact, they allowed inefficient management employees to personally benefit from the Scheme's operations," (Outlet 20/4/01).

Given the wide ranging powers assigned to the minister by the Act, a board could only be allowed to establish a "controlled environment", if the minister allowed it so to do. This is because the minister could disburse funds as he wished and controlled the bank accounts. This arrangement suggests that if monies were misappropriated, it had to be in complicity with the minister, given that his "written approval" was needed before any disbursement from the Scheme's bank account could be effected. If disbursements took place without his signature, then the Act was being violated and if he did nothing about it, then the minister would be also responsible. So whichever way, the minister would be guilty either by commission or omission.

The Outlet Newspaper claims that the minister gave a direct order that drugs should be procured from another supplier whose prices were in some cases 900% more expensive than the prices of the previous suppliers. It also drew attention to a letter from the minister dated May 18, 2000 informing the Superintendent (director) that effective immediately all orders are first submitted to the Ministry for approval **before** the order is placed (9/3/01). There is also a reproduction of a letter from the minister addressed directly to the Accountant requesting that he pays a bill for legal work undertaken on a project funded by the Medical Benefit Scheme (9/3/01).

This breaks the chain of command in the organisation, but given the powers entrusted in the Act this is within the ambit of the powers of the minister. Given such a situation, it cannot be said that the board or the director were the ones in control. The control and power were entrusted in the office of the minister, and given the terms of the board in the corporate governance literature; the minister was effectively functioning as the board. After calls by several organisations, including the Employers Federation, the Leader of Opposition, the Chamber of Commerce (Outlet, 16/2/01, 9/3/03) and the press, the Governor-General has established a public inquiry into the allegations at the Medical Benefit board. The Prime Minister has since dismissed three of the ministers implicated in the scandal, including the minister responsible for the Medical Benefit Scheme (Montserrat Reporter, 27/7/01).

The lessons from this scandal are instructive for executive directors and board members of the social security organisations in the OECS as the legislative framework of the two systems are similar. Though the Acts stipulate that the persons receiving the directives from the minister are ***bound*** to give effect to those directives, management and the board will be held accountable for any alleged wrongdoings. This really reinforces the point made earlier that personal integrity is an important quality needed for persons with fiduciary responsibilities. Executive directors and board members have to be willing to take a stand and resign if needs be, if the directives given are clearly not in the best interest of the organisation.

While the minister has a significant level of power, it is not fair to credit him with all the power. The board also wields or has the potential to wield power, though more so in some countries than others. The Fund of the institution is vested in the board and it is responsible for its administration and in some cases the investments. The board in all of the cases appoints all officers or employees of the board, save the executive director and Deputy director, though in some cases the board appoints the deputy director. St. Kitts & Nevis is the only case, where the board appoints the executive director, but the minister determines the terms and conditions. However, the main areas of the board's power are in its advisory role to the minister and its control over the executive director, with regard to administrative and investment decisions. The board's role is to advise the minister on all matters referred to it and to provide reports of the operations and investment activities of the board.

It is in this capacity, the board gets to influence the decisions taken by the minister. Another area where the board has the opportunity for exerting control is in the day-to-day operations of the institutions. While the executive director is responsible for the day-to-day operations, in many of the cases, he/she is subject to the directions of the board and this means that the executive director can only act if the board approves. In a few cases, the Minister performs this role, and in those cases, the board's power is limited. However, because the board does not have the power to hire, dismiss or compensate top management and also because it is the board which submits the annual reports to the minister, the board of the social security institutions according to the agency theorists is part of management. The minister is the one who carries out the function of the board.

The investment committee is the committee charged with the investment function of the board. This committee makes recommendations on the investments and these recommendations are then subject to the approval of the board or the minister. The executive director is then mandated to carry out the decisions recommended by the investment committee after approval by either the minister or board.

The executive director is charged with the day-to-day operations and the implementation of decisions from the board and or minister. It appears that the executive director has little power over decisions, but because he/she is a member of the board and investment committee, the executive director has the potential to influence the decisions taken at those meetings. And in cases, where a decision has been taken against the advice furnished he/she has the opportunity to have any objections recorded.

Here, the influence of the executive director will be dependent on many factors, including strength of character, knowledge and expertise, respect commanded among the board and investment committee members, past record (so length of service may play an important role) and his preparation. The executive directors, as noted above, have little control over the board's nomination, as this is a function carried out by the minister after consultations with the interest groups that he chooses to use. In Chapter Seven, it will be demonstrated that while the nomination process always follows the "letter of the law", it does not always follow the "spirit of the law". As mentioned in the previous section, there is little evidence that the executive directors in any way influence the nominations, and so the findings of Bacon & Brown (1975) are not replicated here.

The findings of Zald (1969), Alderfer (1986) and Herman (1981) may find support here, for the executive directors because of their involvement in the day-to-day operations have greater knowledge and expertise than the board members. The longer one is in the position, all things being equal the greater the influence especially as the board changes and so the executive director has the opportunity to manage the relationship and determine its character. However, one has to guard against the board becoming a rubber stamp and the executive director becoming a "self-perpetuating oligarchy" (Mizruchi, 1983).

Byrne et al (1997) argue that ownership of significant equity holdings in the company is maybe the most effective means of ensuring that board members remain independent and act as a form of control over the activities of management. The executive director and board members of social security organisations are generally all members of the system and are contributors and beneficiaries of the system, but given the number of social security institutions that have suffered serious problems from mismanagement, this condition does not appear to hold in social security organisations. This may suggest that ownership of or in the social security organisation is not the main factor in the governance framework. This may because ownership is not as explicitly stated as in a private company. Accountability, transparency and integrity may be more important determinants of good governance and consequently of performance in social security organisations.

4.9 Impact Of The Governance Structure Of The SSO In The OECS

From the previous section, it is evident that there are conflicts of interest in the governance structure of the social security organisations in the OECS. The government through the minister is meant to provide the oversight function for the SSO and in essence serve as the regulator for the organisation, yet the Act provides for the minister to give "direct, general and specific directions" to the board and in some cases directly to the executive director.

Two things are wrong with this: on one hand there is a conflict of interest as the regulator cannot be providing oversight on decisions that he has directed and secondly, by giving direction directly to the executive director, the chain of command is violated. This violation can result in decisions being taken that the board is unaware of, yet the Act clearly states that the Fund is vested in the board with the power to administer the Fund according to the Provisions of the Act. In addition, the Acts have all established the social security organisations as independent autonomous institutions with a "right to sue and be sued in its own name." This autonomy is not and should not be compromised by the Government's guarantee in the event of lack of funds.

Many of the governments see the social security organisations as means of ready cash, as they are the largest mobilisers of savings in the OECS (Samuel, 1993). While the social security funds can be invested in government securities and projects, these investments have to be done in the context of the other investments that the organisation already owns in its portfolio. Many of the investments made by the organisations on the directives of the minister have been done in an *ad hoc* rather than a systematic manner. It would be much better if the social security organisations met with government to discuss government's needs and after careful analyses of the various projects, in light with their existing investment portfolio, determine the areas in which they can assist the government. This would ensure that the organisations adopt a portfolio management approach to their investment and so ensure that decisions taken do not jeopardise the organisations finances and consequently its ability to meet its main mandate, which is to provide for the benefits of the contributors and beneficiaries.

The boards of the social security institutions do not carry out the functions associated with boards by the agency theorists and this limits the ability of the board to serve as an oversight of management. The fact that the minister may also give general and specific direction to the board which it must give effect to, may also limit the ability of the board to function effectively and to honour its fiduciary obligation to the contributors and beneficiaries of the social security organisation. This has led to a few board members resigning office because of the incompatibility of the requests and their fiduciary obligations. The executive directors may themselves be constrained from effectively carrying out their fiduciary responsibilities.

These factors are responsible in a large part for the SSO's performance. While none of the social security organisations in the OECS have gone bankrupt, some of the organisations are showing signs of increasing financial pressures, for example Dominica and Antigua & Barbuda. This is evidenced by rapidly declining funding ratios, increasing levels of non-performing government and government related debt. In Dominica, the funding ratio has declined from 11 years in 1990 to 8 years in 1997, with a corresponding increase in total expenses in relation to total income, increasing from 42% to 65% in the same time period. In Chapter Three the arrears of contributions and interest payments owed to the social security organisations by the governments of Antigua & Barbuda, Dominica, Grenada and St. Lucia were discussed. If this situation is not addressed the organisations may find themselves on a brink of crisis that will have nothing to do with the ageing population and the partially funded nature of the organisation: factors so often cited as reasons for the financial problems of social security systems.

A closer look at Chile and the other Latin American social security organisations revealed that mismanagement of the organisations was one of the main reasons for the schemes poor financial performance and bankruptcy, and not solely the fact that the schemes were PAYG, defined benefit or publicly managed, as is so often cited. This mismanagement was a result of a series of reasons including government interference, poor investment decisions, and the favouring of one interest group over another (Mesa Lago, 1989; Holzmann, 1998; Wallich, 1998; Queisser, 1998). This is one of the reasons why it is important to determine the role of governance and to identify the governance factors, which impact on the performance of social security systems.

4.10 Conclusion

In this chapter, the corporate governance literature relevant to the research question was presented and analysed in a social security context. The literature demonstrated that corporate governance, in particular board composition, plays an important part in an organisation's operation and performance. The corporate governance structure, as outlined by the Acts of Incorporation of the social security organisations in the OECS was also introduced and a discussion on the inherent conflicts in the structure of the systems was also presented.

In the next chapter, the data and methodology to answer the key question, "how do governance factors impact on the performance and administration of social security systems in the OECS?" will be discussed.

CHAPTER FIVE - THE DATA AND METHODOLOGY

5.1 Introduction

The last chapter dealt with aspects of corporate governance literature which had a direct bearing on the possible link between board composition and social security performance. The governance framework of the social security organisations in the Organisation of Eastern Caribbean States (OECS) was presented to illustrate the reality of corporate governance in a social security context.

In this chapter, the data and methodology for addressing the key question, "how do governance factors impact on the performance and administration of social security organisations in the OECS? is introduced and explained. In section two, the previous work done on governance in the public pension system in the United States of America (US), which forms the starting point for the present study is discussed. In section three the questions to be tested are presented. In section four, the data are introduced and described and in section 5, the qualitative methodology is introduced. In section six, the sources of other data are presented and the conclusions are provided in section seven.

5.2 Previous Work Done On Governance In A Public Pension Setting

There appears to be no study that has analysed the role of governance on the performance and administration of social security organisations, but there are a few studies, which look at the impact on public pension plans in the United States.

Previous studies investigated the determinants of actuarial assumptions used by pension plans and in the determination of the required contribution ratio (Hsin & Mitchell, 1994); the determinants of administrative efficiency (Hsin & Mitchell, 1997); and the determinants of investment performance (Mitchell & Hsin, 1997). Other work has looked at impact of investment in "economically targeted investments on performance (Munnell and Sunden, 1999) and on the determinant of investment strategies and the impact of those strategies on performance (Useem and Hess, 1999; Useem and Mitchell, 2000).

The work by Mitchell & Hsin (1997) will be used as a starting point of this study. Consequently, the remainder of this section will be devoted to providing an analysis of the Mitchell & Hsin's (1997) paper. Mitchell & Hsin (M&H, 1997) sought to address the issue of why some pension plans appear to be well managed and attempted to identify the structural design features associated with good pension management outcomes. To address these questions, they used the PENDAT file of 1991, comprising a cross-sectional survey of 201 public employees retirement system (PERS) in the US, covering a total of 269 separate retirement plans. The respondents of the survey represented 73% of state and local active pension plan participants and 71% of state and local plan assets in 1990. This however, may not be representative of all plans, since they are among the largest and are probably better managed and funded than the smaller plans.

They used four dependent variables, two representing asset performance and two representing funding analysis. The asset performance variables were the rate of return of 1990 and a five-year annualised return for the period 1986-1990. The use of a five-year annualised return, however, makes it impossible to compute traditional measures of pension performance variability over time. The funding analysis variables were the stock fund ratio and the flow fund ratio. The stock fund ratio expresses pension plan assets as a fraction of the pension benefit obligation, while the flow fund measure is the ratio of actual to required contributions for the year.

While both measures are subject to manipulation as the ratio is dependent on the assumptions made, because the pension plans report the stock fund ratio in accordance with the principles of the Government Accounting Standards Board, it is less likely to be manipulated. The flow fund, on the other hand can be easily manipulated and a study by Hsin & Mitchell (1994) concluded that "required contributions reported by public sector pension plans are endogenously determined...and ...environmental factors have both a direct effect on the level of reported required contributions, and also an indirect effect on the actuarial assumptions selected." On that basis, the use of flow fund ratio as a dependent variable, and thus measure of performance is considered to be inappropriate.

The explanatory variables for this study were classified into five groups and though the classification was the same for explaining the dependent variables, the composition of the classification differed. The five categories were (i) pension board composition, (ii) board management practices, (iii) investment practices, (iv) reporting requirements and assumptions, and (v) other factors that reflect regulations at the state level governing budget and funding practices. A detailed description of the variables is provided in Table 5.1.

Table 5.1
Variable Definitions used by Mitchell & Hsin (1997)

Dependent Variables	
YR1ROR	Annual (1990) rate of return (%)
YR5ROR	Average (1986-1990) annualised rate of return (%)
AST/PBO	Reported pension systems assets/PBO measure of cumulative liabilities (%)
FLOWFUND	Annual actual/required employer plan contributions
Explanatory Variables	
A	**Pension Board Composition**
BDELAC	Fraction of pension board elected by active employees (%)
BDELRT	Fraction of pension board elected by retired employees (%)
LAIBONS	board is covered by liability insurance
BBDENOK	board is required to authorise benefit amounts
BDACTOK	board is required to authorise actuarial assumptions
B	**Pension Management Practices**
ADINVST	Administrative costs charged to pension investment income
INVINHS	Investment staff of pension portfolio partly (or fully) managed in-house
ACCINHS	Accounting staff needs of pension system partly (or fully) met in-house
TOP10MG	Some investments handled by top 10 performance bracket managers
TOP10*EXT	Plan investments exclusively handled by top 10 managers
C	**Pension Investment Practices**
PRUDMAN	Pension board required to act according to "prudent man" rule
INSTATE	Fraction of pension investments, which must be directed in-state (%)
STKMAX	Maximum limitation on the assets in the pension portfolio
D	**Pension Reporting Practices**
INDINVPF	Pension system obtains independent investment performance evaluation
FREQVAL	Frequency of independent evaluation
REPSOLO	System issues own financial report (not integrated with other budgets)
GIVERPT	Plan participants receive annual financial report
AMORTPER	Amortisation period for past service liabilities
AMORTMS	Amortisation period but not stated
ACTUARUC	Pension system uses unit credit method of computing pension liabilities
E	**Pension Assumptions**
COLA	Benefits are partially (or fully) indexed after retirement
WDOT	Future salary growth assumption required to compute PBO
WDOTMS	Salary growth assumptions not stated
PORTABLE	Employees moving within state may carry benefit accruals to new plans
NEXPROR	Interest rate assumptions used in computing PBO (%)
EXPRORMS	Interest rate assumption not stated
INFL	Cost of living assumption required to compute PBO
INFLMS	Cost of living assumption not stated
AVRETAGE	Average retirement age used in computing PBO (yrs)
AVRETAGEMS	Average retirement age not stated
SSINT	Plan integrated with Social Security
F	**Other Factors**
FUNDLAW	State has legal funding standard for pension system
DEFPOS	State law does not prohibit carryover for state budget deficit from one year to the next
TCHRPLAN	System covers at least some teachers and other school employees
ASSETS	Actuarial value of pension system assets, typically at market value ($M)
ASSETSQ	Squared value of assets
BOND	Pension system assets held in corporate and government bonds
STOCK	Pension system assets held in stock
BENNOCUT	State has law guaranteeing benefit amounts
BENTIERS	Benefits differ according to worker hire date
ISUNION	At least some employees covered by the pension system unionised
SPECTAX	Special or dedicated tax is source of employer contributions
UNEMPD	Recent (1990) level of unemployment minus the long run (1981-1989) average level of unemployment level in the state

Controls were included for plan size, type of plan and covered employees and in some cases portfolio composition was incorporated on grounds that plans with less risky holdings would have lower returns. The standard deviation of the returns may have been a better measure to capture the risks of the portfolio than controlling for the portfolio composition. Portfolio composition appears to be more appropriately used as an explanatory variable on performance.

Some of the explanatory variables used do not appear to be appropriate in testing the effect on performance and some of the factors included under the classifications do not appear to be pertinent. Included under board composition are the coverage of liability insurance, authorisation of benefit amounts and the pension assumptions. These appear to be more akin to a classification of policy and practices than of board composition. The classification of pension assumptions appears to be more relevant as independent variables if the dependent variable was investment policies, which could in turn be an independent variable for measuring rate of return.

The model postulated by Mitchell & Hsin (1997) was:

$$Y_1 = a_0 + a_1X_1 + a_2X_2 + a_3X_3 + a_4X_4 + a_5Z + e_1 \qquad (1)$$

$$Y_2 = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5Z + e_2 \qquad (2)$$

Where Y_1 measures investment performance; Y_2 measures funding variables; $X_1 - X_4$ represented vectors of variables reflecting pension board composition, board management practices, investment practices, reporting requirements and assumptions and Z represented a vector of other variables. The disturbance terms were assumed to be distributed normally with zero mean.

They concluded that with regard to asset performance (1) public pension boards having more retiree-trustees experienced lower investment returns (2) returns did not differ depending on whether a pension board had in-house or external managers, even from the "top-10" group and (3) public pension funds required to devote a portion of their assets to state-specific projects earned lower returns. However, none of the results was significant when regressed on both measures of asset performance; the one-year return (1990) and the annualised five year return (1986-1990). The results of the presence of retiree- trustees and the practice of in-state investment were only significant on the one-year basis and not on the five year basis, and the practice of in-state investment was significant only at the 10% level.

Munnell & Sunden (M&S, 1999) using the same data source as M&H (1997) did not duplicate their findings with regards to the effect of in-state investment on performance. They found a statistically significant positive coefficient on in-state investment when returns were averaged over five years and an insignificant coefficient for annual return. They however, argue that their results should be dismissed, as it is anomalous on theoretical grounds and not consistent with patterns in later years. They ascribed the difference in findings to the treatment of missing values. M&H imputed missing values, while M&S did not.

Though they did not highlight the result, if administrative costs were charged to pension investment income, it reduced the rate of return, and this was significant at the 5% level when regressed on the five-year average. These results indicate that the variables used may not have been more appropriate to explain the return on assets, and this is supported by the low R^2 of 11.3% and 12.4% on the one-year and five year rate of return, respectively.

M&H (1997) emphasised the results of the stock fund and not the flow fund because "stock funding data are better than flow funding data." One wonders then why they used it knowing that it was not a reliable measure of funding performance. They concluded that better public pension funding was associated with a pension system having in-house actuaries and with board members required to carry liability insurance; public pension funding was lower when states had experienced fiscal stress, and when employees were represented on the pension system board and that funding did not appear sensitive to statutes guaranteeing benefits, or by legal funding requirements, or by the ability of states to carry budget deficits from one year to the next. The R^2 of 28.9% was much higher for the stock fund ratio than the asset performance, suggesting that the explanatory variables were much better at explaining the funding analysis than the rate of return. It is interesting that M&H ignored the results that were significant at the 10% level on the funding analysis but placed great emphasis on it for the rate of return.

Notwithstanding the limitations identified of the M&H study, it serves as a useful starting point for investigating the relationship between governance, performance and administration in the social security organisations in the OECS. M&H used a cross-sectional analysis, however the study conducted here on the OECS uses panel data. By using panel data, not only will there be a greater number of observations, but it also allows the opportunity to distinguish the effects of variables that would not be possible using only a cross-sectional approach. A more detailed analysis of the use of panel data is provided later in the Chapter (section 5.6). M&H imputed values for missing data. If a pension plan had valid data on all but one or a few explanatory variables, a value of 0 was assigned and a missing value indicator was given a value of 1. If the plan lacked a value for a dependent variable a sample selection term derived from a Probit non-reporting equation was incorporated in the regression equations. This practice has inherent dangers and it was decided that in this study, if data were missing the observation would be removed from the data set. This reduces the number of observations, but it is believed that this is more appropriate than assigning a value of 0 which can be particularly misleading or imputing a value. The standard deviation of the returns will be used as a measure of risk. However, because the standard deviations are not available for the returns of the social security organisations in the OECS, standard deviation is calculated based on the past returns. Ideally, ex ante risk measures should have been used as the use of ex post values theoretically introduces a degree of endogeneity, but this is likely to be of a low order. Two methods were used to calculate the standard deviation, a constant and rolling standard deviation based on the historic returns.

A key area of difference between the M&H and this study is in the explanatory variables. The explanatory variables in this study will focus on the board nomination and appointment process as well as the board composition, the portfolio composition, the investment practices and other factors, which includes the sex of the executive director and the political status of the country. The explanatory variables in this study are believed to be more endogenous than the ones used by M& H. There are only three common explanatory variables in the two studies: the percentage of plans participants on the board, the use of external managers and the use of in-state investment, and the latter may even be defined differently. The dependent variables are firstly the rate of return from the inception of the social security organisation to 1999 and secondly, the funding ratio, which is similar to the stock fund ratio used by M&H but not identical. In the next section, the questions to be addressed are introduced.

5.3 Empirical Investigation Of The Relationship Between Governance And Social Security Performance In The OECS

In the context of social security funds the possible relationship between governance and performance can be subdivided into six main categories: (i) the appointment process, (ii) board and investment committee composition and size, (iii) investment policies, (iv) operational process, (v) portfolio composition and (vi) other factors. The key questions suggested by these areas are as follows:

1. Does the appointment of the board, investment committee and director by the cabinet, minister or governor make a difference to the performance of the social security organisations?

2(a) How does a tripartite board impact on the performance of the social security organisations?

2(b) How does the composition of the investment committee impact the performance of social security organisations?

2(c) How does the size of the board and investment committee impact on performance?

3(a) How does the initial intent of the government regarding the introduction of the social security organisations impact on performance?

3(b) How do the restrictions imposed on foreign investment impact on the performance of the organisations?

3(c) What is the impact of the use of external managers on the performance of social security organisations?

4. How does the portfolio composition impact on the performance of the organisations?

5(a) What is the impact of the funding ratio on performance?

5(b) How does the administrative expenses impact on performance?

5(c) What is the impact of the benefit expenditure on performance?

6(a) Does the sex of the director make a difference to the performance of the organisations?

6(b) What impact does the political status of the country have on the performance of the organisations?

6(c) Does the transition from a national provident fund to a social security system impact on performance?

5.4 The Data Set

The data were compiled from the audited financial statements, Acts of Incorporation of the respective countries and economic data from the Eastern Caribbean Central Bank (ECCB). The organisations included in the study are the Anguilla Social Security Board (ASSB); the Antigua and Barbuda Social Security Board (ABSSB);

The British Virgin Islands Social Security Board (BVISSB); Dominica Social Security Scheme (DSSS); Grenada National Insurance Scheme (GNIS); Montserrat Social Security Board (MSSB); St. Kitts and Nevis Social Security Board (SKNSSB); St. Lucia National Insurance Scheme (SLNIS) and the St. Vincent and The Grenadines National Insurance Scheme (SVGNIS).

The data are categorised in six groups: (i) appointing process, (ii) board and investment committee composition and size, (iii) investment policies, (iv) operational process, (v) portfolio composition and (vi) other factors. An in-depth examination will be presented of each category.

5.4.1 The Appointing Process

This classification covers the appointing process of the board, investment committee and executive director. The board is appointed either by the minister, governor or cabinet. The minister appoints six of the boards, two are appointed by the governor and one by cabinet. In four cases, the Acts do not stipulate the appointing body for the investment committee but it can be assumed that the same appointing authority of the board appoints the committee. In the five cases, where it is stipulated, the minister appoints the committee in four of those cases, with the board appointing the committee in one. The minister and the governor in three cases each, cabinet, board or Public Service Commission (PSC) in one case each appoints the director. The appointment and board composition have been dealt with in Chapter Four and the differences were presented in Table 4.1.

The appointment by the minister and cabinet can be classified together as they are both closely identified with the government. The appointment by the governor is meant to signify independence from the government, however there is no reporting relationship between the board and the director and the governor. All boards report to the minister and he is the one with the legislative power to give "general or specific directions to the board." The same also holds true for the investment committee. The appointment of the executive director by the PSC is also meant to be a sign of independence from government as appointments by the PSC are constitutional appointments and basically once appointed, one cannot be dismissed "if the minister deems it expedient so to do."

The executive director is also normally appointed by the same appointing authority of the board, however there are some exceptions. In Anguilla, British Virgin Islands and St. Kitts and Nevis, the board is appointed by the minister, but the governor in the first two cases and the board in the latter case appoint the director. In Antigua, the governor appoints the board but the appointment of the director is done by the PSC. This separation is meant to serve as a "check and balance" on demands of governments.

5.4.2 Board's Composition and Size

The boards range in size from five to nine members, with a mean of 6.56 and a median of 7. The investment committees are smaller, with a mean of 4.39 and a median of 5.

The Acts stipulate in all countries, except Dominica, that the board shall be tripartite with representatives from employees and employers. The percentage varies from 0% to 67%, with a mean of 46.2%. The inclusion of the representatives of employees and employers, classified as social partners, is meant to provide the board with not only a range of expertise but very importantly provide representation for the employees and employers in the decision-making process. The International Labour Organisation (ILO) favours Tripartism and the ILO had a great influence on the establishment of the structures in the OECS. There is meant to be consultation with various employees and employers' bodies' in the selection of the representatives, however, there is much variation in that process. This will be dealt with in greater detail in Chapter Seven. The boards of many social security systems are tripartite and many public pension systems, as well as private pension plans in the US include plan participants on the board.

5.4.3 Investment Policies

The stated investment policies encompass the restrictions imposed on the portfolio with regard to foreign investments and equity holdings as well as the use of external managers. The Acts prohibit foreign investment, without the express approval by the minister in only two instances, in Anguilla and St. Kitts and Nevis. In the other countries, there is no such legal restriction, but there are generally unspoken and in some cases explicit statements that investments should be concentrated in the domestic economy (Various Hansards, Anniversary Reports and Annual reports of the social security organisations in the OECS).

Foreign investment has been classified as investment outside the OECS area, even though the permission of the minister is needed in Anguilla and St. Kitts and Nevis, for any investment outside of the country. The reasons for including investment within the OECS as domestic investments are because (i) of the use of a common currency by the member states (ii) the agreements, which allow for free movement of people and capital within the region and (iii) the small percentage of funds invested within the region.

The percentage invested in the foreign market is small, though there has been an increase in the last few years. The average over the period 1972 – 1999 was 6.31% and the average invested in the foreign market between 1990 – 1999 showed a slight increase to 8.16%. Three social security organisations, the BVISSB, MSSB and SKNSSB, have invested in the foreign market from inception. The foreign portfolio in St. Kitts and Nevis was acquired from the National Provident Fund, but there has been no increase of the portfolio holdings due to opposition by both the minister and the Eastern Caribbean Central Bank (ECCB). In Montserrat, a portion of the portfolio has always been invested by external managers and in the British Virgin Islands (BVI); investments have always been made in the US market. There is however, in recent times, a move by two other organisations, the ASSB and the SLNIS to expand in the foreign market.

The investments in the foreign market are usually done through the use of external managers, though in the BVI foreign investments in bonds and fixed deposits are managed in-house. The use of external managers in the management of a portion of the funds will therefore be tested for its influence on the performance of the organisations. There are very few restrictions on equity save that in some countries; stipulations are made concerning the age and capitalisation of the company and the payment of dividends. There is however, little investment in equity. This may be as a result of the limited opportunities available in the local market and the restrictions on foreign investments, both implicitly and explicitly stated. The issue of equity and use of foreign investments will be revisited as part of the discussion of the portfolio composition in the next section.

5.4.4 Portfolio Composition

The table below summarises the average portfolio composition of the SSO over the period 1972 – 1999. It also presents information on the minimum and maximum holdings.

Table 5.2
Portfolio Composition of the Social Security Organisations in the OECS

Asset Class	1972 – 1999 Holding	Min	Max	1990 - 1999 Holding	Min	Max
Equity	0.87	0	16	1.62	0	16
Foreign Investment	6.31	0	60.4	8.16	0	52
Fixed Deposit	49.69	2.31	100	48.32	3.5	90.2
Government bonds and Treasury Bills	24.45	0	84.4	20.13	0	73.50
Loans	16.25	0	55.8	18	0.10	52.50

It should be noted that the investments in the foreign market comprise mainly investments in bonds and fixed deposits. The British Virgin Islands and Montserrat have the largest holdings of foreign investments and the British Virgin Islands, the largest holdings of equity. There is a heavy concentration in fixed deposits, followed by government bonds and treasury bills and loans. A detailed look at the portfolio composition of the SSO in the OECS is presented in Appendices 3 to 11.

Two of the reasons for the high concentration in government bonds and fixed deposits are the restrictions placed on foreign investment and the non-existence of a developed capital market. The concentration of so much of the reserves in fixed deposits poses risks not only to the social security system in the form of lower returns and inability to move the portfolio as desired, but also imposes risks on the banking sector. These factors are bound to impact on the performance of the systems and a more detail analysis is warranted. This is presented in the next section.

5.4.4.1 Analysis of Portfolio Composition

As at the end of 1999, the total reserve of the social security organisations in the OECS was about EC$ 2.3 billion (US$ 852m), with the invested portfolio just about EC$ 2 billion (US$ 741m). A reference back to Table 5.1 will show a slight shift in the investments from government bonds and fixed deposits into equity, loans and foreign investment in the 1990 – 1999 period when compared to the 1972 – 1999 period. Over the last nine years (1990-1999) fixed deposits account for about 48%, government bonds and treasury bills 20%, socio-economic loans 18% with the remainder of the portfolio shared between equity, foreign investment and property. Within this average, there is some disparity, for example on average fixed deposits account for about 80% of the portfolio in Anguilla and only about 12% in Grenada (see Appendices 3 and 7).

The composition of the portfolio may be explained by the fact that the capital market in the OECS is non-existent and there is a preference for local investments. In recent years, the ECCB has been involved in establishing a securities exchange but this is still not yet off the ground. We have already noted the reluctance of the government to allow investments in the foreign market even where it is not legally prohibited. The ECCB is also not in favour of foreign investments by the social security organisations on the grounds that with the exception of Anguilla [and the British Virgin Islands] the organisations do not earn foreign exchange and this would result in the "breaking down of the reserves of the region," (ECCB Minutes of Meeting with Officials of Social Security Schemes, May 19, 1994).

Some of the other reasons advanced for the non-investment in the foreign markets include the higher rates of interest that will be faced by the government if it has to borrow monies from international and other foreign agencies. This in turn, it was argued will impact on the population in the form of higher taxes and increased pressure on businesses. Other reasons include the need to facilitate economic growth (as discussed in Chapter Three and will be addressed again in Chapter Seven) and to provide tangible benefits to the contributors of the system.

These arguments are possibly valid but must be weighed against the needs of the organisations and the need for diversifying the portfolio. A look at the portfolio of the SSO will show a heavy concentration in either government paper and/or loans to statutory bodies and government or in fixed deposits in commercial banks. In many of the cases, the bonds and loans are non-performing, and so while theoretically, these investments have positive return, in practice this is often not the case, as neither interest nor capital has been repaid. This also serves to overstate the rate of return, as interest income is accounted for on the accrual basis, in keeping with Generally Accepted Accounting Principles (GAAP).

There is also the case of loans that should have been retired twenty years ago still being on the books in arrears. As at December 1999, there were examples of five loans to statutory bodies in Antigua, two of which should have been repaid in 1980, two in 1986 and one in 1992 (Antigua & Barbuda Social Security board Annual Report, 1999). This situation is arguably not unique to Antigua, but because most of the Annual Reports do not report that level of detail, it would not be readily detectable except perhaps through interviews and access to the working papers of the accountant and auditors. There does not appear to have been much effort taken to get debtors to honour their obligations and in some cases, new loans are granted even while there is an outstanding loan in arrears.

The Quebec Pension Plan provides a good example of how the emphasis and acceptance of the fiduciary responsibility can turn around a system. The Quebec Pension Plan was in a financial crisis in the late 1980's and a decision was taken in the early 1990's to form a subsidiary whose sole function would be the management of the investment portfolio on a professional and prudent basis. This arrangement has been in existence for more than five years now and over those years the portfolio has grown and the Quebec Plan brought back on a path of sustainability. The investment subsidiary determines the minimum interest rate and risk tolerance and all investments, irrespective of whether it is government sponsored investment or not, must first pass the return and risk test before it is accepted (Guay, 2001).

Theodore and La Foucade (1999) argue that social security schemes frequently feel the hand of government pushing them in particular directions and this for most part does not facilitate efficient investment decisions governed by sound investment principles. They assert ***"the interests of the state may sometimes block out the other investment principles when it is essential that they all mesh together as a cohesive whole".*** This blocking of the investment principles can only take place in an environment where the best interests of the SSO are subjugated to other interests. While recognising and accepting the influence, control and power of government, if there were a greater emphasis on good governance and fiduciary responsibility owed by not just the managers of the social security organisations, but also by the government, this situation would be ameliorated.

As the then Leader of the Opposition declared, when commenting on government's indebtedness to the Dominica Social Security, the board has to "stand up" to the government, for if they do not, "people will find that they reach retirement age and there is no money," (Tropical Star, 8/9/1999). This would be a terrible indictment on the board members and management, not only at the time, but even more so, of the past members.

The portfolio's heavy concentration in fixed deposits appears to be a risky approach, compared to a more balanced portfolio of stock, bonds and fixed deposits. In St. Kitts and Nevis about 66% of the portfolio is invested in one commercial bank (St. Kitts and Nevis Social Security Scheme Annual Reports, Interviews, 2001). In St. Vincent about 80% is invested in commercial banks, with the majority of the investments also in one commercial bank and the same holds true in Anguilla (Respective Annual Reports). These organisations by the size of the investments carry with them the systemic risk of the commercial banks and in many cases have lost the flexibility to move their investments because of the possible impact on the health of the institution.

Yet, they are not compensated for the high level of assumed risk, as often the rates received from the commercial bank where most of the money is deposited is lower than at the other commercial banks (Interviews, 2001). Additionally, the social security organisations are not members of the board of directors of these banks. Given the size of the deposits of the social security organisations, in keeping with good corporate governance, the social security organisations should arguably seek representation on the board of directors of these institutions.

According to Nicholls (1996) with a concentration of their investment portfolio in the indigenous banks, the social security systems (SSS) are unduly exposed to the actions of these institutions. Theoretically, he argues, there is a great risk that the SSS can lose their entire portfolio if the commercial banks are imprudent in their investment decisions. This is of grave concern because the indigenous banks are often over-exposed to risks in a particular geographical location. Nicholls (1996) explains that the banks are in effect unit banks, and do not benefit from a diversified portfolio base through time and space, which would facilitate a smoother adjustment in the case of adverse clearings. Additionally, the social security organisations have no recourse to loss of their deposits in the commercial banking system. There are no deposit insurance or other guarantees and neither do these organisations engage in any monitoring of the performance of the banks.

This overexposure is not only bad for the social security organisations but also for the commercial banks, for they become very vulnerable to the actions of the social security organisations. This serves as a major constraining factor on the social security organisations for arguments are often put across by the government, the bank and even the ECCB that make it difficult, if not impossible, for the social security organisations to withdraw their funds. An appreciation and understanding of those risks would play an important role in ensuring that these funds are managed prudently and are not overly exposed to loss. This is also an important argument for the diversification of the portfolio outside of the local economy, since the local economy does not provide sufficient avenues for the proper diversification of the portfolio.

Nicholls (1996) simulated the impact of a 5% withdrawal of deposits by the social security institutions on the indigenous commercial banks and estimated that this would lead to a decline of 17.2% in the loans to deposit ratio of the banks. He argues that it is in the interest of the social security organisations to avoid activities, which impose stress on the financial system generally, and the indigenous banks, in particular. It may, he argues; result in a "run" on the banks, which would in turn jeopardise the safety of the remaining assets of the social security organisations.

This strengthens the case against the management of social security organisations who deposited such large sums of money in the commercial banks and in one particular bank, without studying the implications for themselves as well as for the financial system. Nicholls (1996) advocates co-operation by the institutions given that both sides can do harm to each other, however, social security organisations need to ensure that they are adequately compensated for the additional risks that they bear. Samuel (1993) cautioned against the excess holding of deposits in the banking sector, but his caution appears to have fallen on deaf ears, as there has been no significant decline in holdings of fixed deposits. This may be due in part to the limited opportunities available locally, but also to the inflexibility which the social security face once the monies are deposited in the banks, given the impact on the bank and the financial system. Samuel argued that the funds so deposited with the commercial banks are usually on short-term deposits, attracting low interest rates and are not always channelled into the productive sectors because of the bank's preference for short-term lending in the distributive and personal sectors.

Theodore and La Foucade (1999) find surprising the high percentage of assets held in fixed deposits and argue that the long-term financial viability of the social security organisations in the OECS is questionable. They point out that the various regulations establishing the organisations specifically state that the reserves should be invested to reflect the type of benefits to be paid out and the period when it becomes necessary to realise the investments. They, thereby argue that a balance between the short-term and long-term assets is necessary for the scheme's viability.

Nicholls (1996) highlights even more vividly the risks faced by the social security systems. He argues that the operational framework of the ECCB, the lender of last resort for the OECS, makes it difficult if not impossible for the Bank to perform that function because of the need for a 100% foreign currency backing. So whereas fixed deposits are meant to be safe and liquid investments, in the case of the fixed deposits of the social security organisations in the OECS, this may not be the case. These investments may take on the characteristics of long-term illiquid assets, without the attendant return. While the impact of a sudden or large withdrawal of commercial bank deposits by the social security organisations is recognised, it is incumbent on the commercial banks, especially the indigenous banks to widen their deposit base. Instead of being complacent in the knowledge that they have a ready and steady pool of deposits, the commercial banks should be actively seeking to expand their base and thus reduce their own dependency on the social security organisations.

The social security organisations, as was revealed in Chapter Two are the largest mobilisers of savings in the OECS, and from the examination and discussion of the portfolio composition, they play a major role in the financing of the local economy. In section 5.5, an examination of the size of the organisations in relation to the economy is provided. In the next section, the operational processes will be presented

5.4.5 Operational Process

The study by Mitchell (1998) on administrative costs in public and private retirement systems in the United States used administrative costs as a dependent variable to assist in evaluating the administrative costs implications of moving to a privately managed retirement system. In the Mitchell & Hsin (1997) study, which is used as the starting point for this study, administrative costs were not considered either as a dependent or independent variable. In this study not only the level of administrative expenses, but also the levels of benefits, reserves and the funding ratio are employed as independent variables to test for the relationship on performance. It should be noted that in this study the funding ratio is used as both a dependent and independent variable (not simultaneously) to determine not only the factors which influence the funding ratio, but also to test the effect of funding ratio on the rate of return. This is because funding ratio may be both influenced by and influences the rate of return.

An investigation in the financial performance of the social security organisations will reveal rising benefit expenses. Benefit expenses have increased as the system has matured and more persons qualify for a benefit. The introduction of non-contributory pensions as well as adjustments made to bring benefits in line with inflation have also resulted in the increases of benefit expenses.

In the Table 5.3, a look at the benefit expenses in relation to GDP will be provided which will later be compared with a selected group of countries, provided in Table 5.4. The benefit expenditure of the social security systems in the OECS is gradually increasing with a simple average of about 0.59% of GDP in 1990 to 1.19% of GDP in 1998. Dominica consistently records the highest levels of spending among the OECS Member State though it does not have the highest age dependency (Table 5.5). This may be due to more generous benefit terms, both in terms of eligibility criteria and benefits.

Table 5.3
Benefit Expenditure of Social Security Systems in Relation to GDP In The OECS, Selected Years (%)

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998
Anguilla	0.68	0.65	0.77	0.88	1.04	1.01	1.14	1.24	1.31
Antigua	0.84	0.84	0.82	0.96	1.16	1.30	1.30	1.36	1.36
British Virgin Islands	n/a	n/a	n/a	n/a	0.43	0.37	0.37	0.38	0.40
Dominica	1.19	1.50	1.79	1.97	2.07	2.15	2.23	2.49	2.41
Grenada	0.43	0.45	0.50	0.58	0.62	0.75	0.82	0.84	0.92
Montserrat	0.09	0.17	0.23	0.25	0.29	0.43	0.62	0.81	0.79
St. Kitts & Nevis	1.20	1.18	1.08	1.26	1.20	1.42	1.61	1.71	1.80
St. Lucia	0.09	0.38	0.43	0.53	0.56	0.63	0.71	0.79	0.88
St. Vincent & The Grenadines	0.23	0.24	0.26	0.36	0.42	0.46	0.52	0.67	0.83

Source: Author's Calculations based on GDP figures from the ECCB and the British Virgin Islands Statistical Office and the Financial Statements of the Organisations.

Generally, however, the growing trend in the expenditure of benefits as a percentage of GDP is due in part to the maturity of the system, reflected in the dependency ratio (Table 5.5).

Table 5.4
Public Pension Spending in Relation to GDP of Mandatory Pension Systems in Selected Countries 1993 – 1998 (%)

Partially Funded Defined Benefit		Centrally Managed DC (Provident Funds)		Privately Managed DC	
Belize	0.2	Malaysia	1.0	Chile	5.8
Jamaica	0.3	Singapore	1.4	Argentina	6.2
Sweden	11.4	Kenya	0.5	Uruguay	15
Canada	5.4	Tanzania		Mexico	0.4
Switzerland	12.6	Zambia	0.1	Peru	1.2
United States	7.2	Uganda	0.8	Kazakhstan	5.0
Japan	6.6	India		Hungary	9.7
Namibia				Poland	14.4
Philippines	1.0			Netherlands	
Costa Rica	3.8			Australia	4.6
United Kingdom	10.2			Switzerland	
Honduras	0.6			UK	
Gambia				Denmark	9.6
Guyana	0.9				
Trinidad & Tobago	0.6				

Source: Adapted from Palacios & Pallares-Miralles (2000).

This point will be made clearer when a comparison is done with the dependency ratio of the countries as well as when a comparison is done with a selected group of countries in terms of both benefit expenditure as a relation to GDP and dependency ratios (see Tables 5.4 and 5.6).

The age dependency ratio,(presented in Tables 5.5 and 5.6), is the ratio of the number of persons over the retirement age and those below 14 or 16, relative to the working population. The figures gives an indication of the demands that will be made on the system; however, the systems dependency ratio is a much better indicator of the impact of ageing on the performance of the social security organisations. The age dependency ratio gives an indication of the number of persons over the retirement age relative to the working population, while the systems dependency ratio is the number of those in receipt of a pension relative to the contributors. This information is not available for most of the countries, but it many cases the system dependency ratio will be higher than the age ratio.

Table 5.5
Projections of Age Dependency Ratios in the OECS 1980 – 2050

Country	1980	1991	2000	2010	2020	2050
Anguilla	10	14	18	22	24	28
Antigua & Barbuda	16	15.8	15.6	15	14	25
British Virgin Islands	n/a	8.3	n/a	n/a	n/a	n/a
Dominica	15.1	15.8	13.6	10	9.7	21.9
Grenada	12.7	14.8	16.4	18.5	20	25
Montserrat	23.2	22	27	n/a	n/a	n/a
St. Kitts & Nevis	18.9	17.9	16.2	16.7	17.5	25
St. Lucia	12	10.5	8.2	8.3	8.4	24.4
St. Vincent & the Grenadines	13.7	12.5	9.2	9.4	10	26.4
Average*	**14.3**	**13.9**	**13.5**	**13.8**	**14.4**	**24.7**

* Calculated by weighting each country's dependency ratio by its share of the group's total (projected) population. The dependency ratio is calculated by expressing the population age 65+ as a percentage of the population aged between 15 to 64. It should be noted that in countries where the retirement age is 60, the dependency ratio would be higher than indicated by these figures.

Source: Nicholls, 2001; Statistics Department, Ministry of Finance and Economic Development, Montserrat; Statistic Department, British Virgin Islands.

These figures reveal that a drastic increase in the dependency ratio is expected between 2020 and 2050, and this means that there will be added pressure on the organisations to meet the benefit claims. These figures, however, do not take into account the impact of Acquired Immune Deficiency Syndrome (AIDS). The Caribbean is reported to have one of the fastest growing incidences of AIDS, in the world. This may serve to severely increase the dependency ratio as a result of a significant portion of the workforce dying prematurely until such time as a cure is found. AIDS will also impact negatively on the short-term benefits as the sufferers become ill and it may not significantly reduce the pension bill if the victims have survivors. However, these figures are significantly lower than those projected for some countries, reflected in Table 5.6.

Table 5.6
Age Dependency Ratio of Selected Countries – Population 60+/population 20-59

Country	1975	2000	2025	2050
Caribbean Region				
Barbados	17	17	25	39
Guyana	7	6	13	27
Jamaica	12	10	14	30
Trinidad & Tobago	9	10	18	32
Latin America				
Argentina	12	16	19	29
Chile	9	11	19	29
Peru	7	8	13	26
Uruguay	15	20	20	29
OECD				
Canada	13	18	33	42
Denmark	21	22	32	35
Finland	16	22	37	38
Germany	23	23	34	52
United Kingdom	22	24	33	39
United States	16	19	29	35
Central and Eastern Europe				
Croatia	16	21	30	38
Kazakhstan	9	11	17	27
Poland	14	17	27	35
Russia	13	18	27	39
Africa				
Cameroon	7	7	7	11
Gambia	5	6	8	11
South Africa	7	8	10	18

Source: Gillion et al (2000)

In many of the cases, the OECS dependency rates are lower than those of other Caribbean countries. A study by Jordan & Carter (2000) looking at the impact of the demographic changes on the social security system in Barbados, Jamaica, Trinidad and Tobago and St. Lucia concluded that with the exception of St. Lucia, where the population is projected to remain relatively youthful, the systems in the other countries are in need of significant restructuring to remain sustainable in the future. The paper offered some suggestions, but like so many studies on the sustainability of social security systems, no attention was paid to the role of corporate governance and effective management in enhancing the sustainability of the systems.

However, data for selected groups of OECS countries indicate a relatively high youth dependency (Table 5.7). These figures indicate that, barring serious negative impact of AIDS, other terminal illness or natural catastrophe, the working population will be replenished for several years to come by the young.

Table 5.7
Youth Dependency For The OECS Countries

Country	1991	1992	1993	1994	1995	1996	1997	1998	1999
Anguilla	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Antigua & Barbuda	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
British Virgin Islands	40.5	40.5	40.5	40.3	40.1	40.1	40	39.3	39
Dominica	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Grenada	76	75.2	74.4	73.3	71.4	69.2	67.4	64.5	60.9
Montserrat	44	n/a	n/a	n/a	44	46	52	51	42
St. Kitts & Nevis	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
St. Lucia	43.7	42.6	42	42	41.8	41.3	40.3	39.3	37.1
St. Vincent & The Grenadines	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

The Youth dependency ratio is calculated as the population 0-14/pop 15 –59.
Source: Statistics Department, British Virgin Islands; NIS, Grenada; Statistics Department Ministry of Finance & Economic Development, Montserrat, NIS, St. Lucia.

It is interesting that, as will be discussed in Chapter Seven, the ageing population was identified as a major challenge by only a third of the OECS social security organisation in the Caribbean, while seventy-eight percent identified the prudent management of the investment portfolio. That does not mean that the organisations are not cognisant of the impact of ageing, but see prudent management of their investments as a key element in managing the ageing problem and in maintaining their relevance and in ensuring their sustainability.

There is generally a strong correlation between the dependency ratio and pension spending. Using data on pension expenditure and dependency ratio from Palacios and Pallares-Miralles (2000) the correlation between spending and dependency ratio is

.851. When data for the seven OECS systems not included in the data set is included, the correlation drops slightly to .847. The results indicate that pension spending is very highly influenced by the dependency ratio, increasing as the dependency ratio increases.

In addition to the benefit expenses, the administrative expenses have also been increasing. The administrative expenses have risen largely due to an increase in allowances for the board and investment committee fees and allowances, staff benefits, training and public relations. This, coupled with the increase in benefits, means that total expenses have also been increasing and in some schemes total expenses exceed 70% of all contributions received and in Dominica in 1999, it was as high as 92%. Other factors likely to impact on administrative expenses include the effectiveness and efficiency of contribution collections, control of expenses, management of the organisations as a whole and the optimisation of the portfolio. In the next section, a description of the other factors thought to influence performance is presented.

5.4.6 Other Factors

These other factors include the sex of the executive director, the political status of the country and the age of the organisation. Two of the variables are self-explanatory and a description will be provided only for the political status of the country. Three of the countries, Anguilla, BVI and Montserrat are still British dependent states and though there is internal self-government, there are still some political and economic ties with Britain. The study will also attempt to analyse the extent to which this impacts on the performance of the social security organisations. In the next section, an analysis of the pension reserves in relation to the economy is provided as indicated in section 5.4.4 earlier.

5.5 Pension Reserves And The Economy

The reserves of the social security organisations are significant in relation to GDP, and data for a selected number of years are presented in Table 5.8. The pattern reveals a steady increase of the reserves in relation to GDP and of the importance of the social security organisation in the local economy. In Anguilla and St. Kitts and Nevis, the social security reserves accounted for almost 50% of GDP in 1998, and there has been a significant increase in importance of the social security organisation in Montserrat since the Volcanic Crisis began in 1996. In 1995, the reserves were less than 16% of GDP, and in 1998, a doubling in importance to 31%, in just three years is evidenced.

Table 5.8
Reserves of The OECS Social Security Systems in Relation to GDP, Selected Years (%)

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998
Anguilla	22.73	25.78	29.53	29.54	32.30	35.74	39.68	41.65	45.39
Antigua	16.26	18.83	20.40	20.99	20.98	23.51	23.40	23.48	23.85
British Virgin Islands	n/a	n/a	n/a	n/a	16.64	17.21	18.16	18.37	19.45
Dominica	20.95	21.69	22.52	23.52	23.77	25.19	25.54	26.60	27.47
Grenada	11.70	12.65	13.38	17.07	18.52	19.80	20.68	21.36	22.11
Montserrat	7.53	10.51	11.35	13.10	14.04	15.55	22.55	28.01	31.37
St. Kitts & Nevis	32.05	34.94	36.02	37.47	38.06	41.11	43.62	44.66	46.62
St. Lucia	15.29	16.01	16.66	18.40	19.84	20.64	22.97	25.02	26.31
St. Vincent & The Grenadines	15.77	16.60	16.89	18.21	19.58	19.79	20.50	21	21.47

Source: Author's Calculations based on GDP figures from the ECCB and the British Virgin Islands Statistical Office and the Financial Statements of the Organisations

In Table 5.9, the percentage of GDP for a selected group of countries with different social security structure is presented for the years between 1987 and 1998 is presented.

Table 5.9
Reserves in Relation to GDP of Mandatory Pension Systems in Selected Countries 1987 – 1998 (%)

Partially Funded Defined Benefit		Centrally Managed DC (Provident Funds)		Privately Managed DC	
Belize	0.2	Malaysia	55.7	Chile	45
Jamaica	0.3	Singapore	55.6	Argentina	3.0
Sweden	32	Kenya	12.1	Uruguay	1.0
Canada	11	Tanzania	9.4	Mexico	0.50
Switzerland	7.1	Zambia	0.7	Peru	2.1
United States	5	Uganda	0.6	Kazakhstan	0.50
Japan	25	India	4.5	Hungary	0.40
Namibia	0.4			Poland	1.10
Philippines	11.2			Netherlands	87.3
Costa Rica	5.4			Australia	61.0
Switzerland	7.1			Switzerland	117
Honduras	3.5			UK	74.7
Gambia	11.1			Denmark	23.9

Source: Adapted from Palacios & Pallares-Miralles (2000).

Though a full comparison cannot be made because of the unavailability of data for all the countries over the same time span as for the OECS, a comparison of Tables 5.8 and 5.9 reveals that social security organisations in the OECS are in the groups of countries where the reserves form a significant portion of GDP. A cursory look at Table 5.9 shows that there is no strong relationship between the type of pension system and the relative importance of the pension reserves in relation to the economy, though the largest values appear to be from defined contribution, fully funded, privately managed and defined contribution, fully funded publicly managed systems.

The aim of this study is to examine the factors that impact on performance of social security organisations in the OECS and to identify some elements of best practice for enhancing performance. In the next section, the model specification is introduced. Performance is determined by both exogenous and endogenous factors. Some of the exogenous factors are the economic, political and social environment, while some of the endogenous factors include the governance framework, the management structure and style and the policies. In this study the emphasis will be on the governance factors impacting on performance, however, a look will also be taken at the political factor as represented by the appointment process of the board.

5.6 Model Specification

The model seeks to identify the factors which influence the performance and administration of social security organisations. Performance is measured by the rate of return on the investment portfolio and administration by the funding ratio. According to Mitchell and Hsin (1997) pension funding is important since better-funded plans stand a better chance of having assets on hands to pay promised benefits. This measure, however, can be problematic because of the denominator/numerator problems. The ratio is open to manipulation and it is possible to show a high or stable funding ratio, even if reserves are constant or falling, if the expenses are low or falling. Expenses can be manipulated by deferment or capitalisation of expenditure and thereby, show a positive, constant or rising funding ratio, even in the face of falling revenue. There is however, no evidence of this manipulation in the OECS.

The OECS organisations do not mark-to-market their assets, accounting for assets by the lower-of-cost or market value. In many cases, market values are not ascribed to the investments. For example, government bonds and the domestic equity holdings and these investments are accounted for on a cost basis. This means that the computed rates of return do not reflect the true market return.

The formula used for computing the nominal rate of return derived from Mesa Lago (1991) and used by Theodore and La Foucade (1999) is:

$$\textit{(Investment Return} \times 200) \div \textit{(Investment Portfolio at the Start of the Year} + \textit{Investment Portfolio at the End of the Year} - \textit{Investment Return)}$$

The real rate of return using the formula from Mesa Lago (1991) is:

$$[(1 \times \textit{Nominal Rate of Return} \div 1 + \textit{Rate of Inflation}) - 1] \times 100$$

The formula used for computing the funding ratio is the one favoured by the actuaries (Various Actuarial Reports of the OECS Social Security Systems):

$$[\textit{(Reserves at the End of Last year)} \div \textit{(Total Expenses of Current Year)}]$$

The model estimated has the following structural forms:

$$Y_1 = a_0 + a_j \sum_{j=1}^{6} X_{j,t} + e_{1,t} \qquad (1)$$

$$Y_2 = b_0 + b_j \sum_{j=1}^{6} X_{j,t} + e_{1,t} \qquad (2)$$

$$Y_3 = c_0 + c_j \sum_{j=1}^{6} X_{j,t} + e_{1,t} \qquad (3)$$

Where Y_1 represents the variables reflecting the nominal rate of return; Y_2 represents the real rate of return; Y_3 represents the funding ratio, and X_1 to X_6 represents the variables reflecting the appointment process, board composition, operational process, investment guidelines, portfolio composition and other factors, respectively. The error term is assumed to be normally distributed with a mean of zero. The six independent variables are formed by assigning dummy variables or the actual numbers to each of the measures under the classification.

Table 5.10
The Dependent And Explanatory Variables of The Model

Variables	Description
Dependent Variables	
NRORML	Nominal rate of return from inception to 1999 for each of the social security organisation
RRORML	Real rate of return from inception to 1999 for each of the social security organisation
FRATIO	Funding ratio from inception to 1999 for each of the social security organisations
Explanatory Variables	
X_1 ***Appointing Process***	
BDCAB	Appointed of the board is done by Cabinet
BDGOV	Appointment of the board is done by the Governor
DIRBD	Appointment of the director is done by the board
DIRCAB	Appointment of the director is done by the Cabinet
DIRGOV	Appointment of the director is done by the Governor
DIRPSC	Appointment of the director is done by the PSC
TUNIONPT	The involvement of the trade unions in the board's nomination process
EMPLINV	The involvement of the employers' associations in the board's nomination process
X_2 ***Board Composition***	
PARTICIP	The % of board members representing both workers and employers
BDINVCHN	The chairman of the board holds the chairmanship of the Investment committee
INVCOMP	The % of Investment committee members that are non-board members
BDSIZE	The size of the board
INVSIZE	The size of the Investment committee
X_3 ***Operational Process***	
ADMINEXP	The level of administrative expenses (actual amounts)
BENEFITS	The level of benefits (actual amounts)
RESERVES	The level of reserves (actual amounts)
X_4 ***Investment Practices***	
RESTRICT	The presence of restrictions on foreign investments
EXTMGRS	The use of external managers
GINTENT	Governments intentions at inception of social security
X_5 ***Portfolio Composition***	
GOVT	The percentage of the portfolio invested in government bonds and treasury bills
FDEPOSITS	The percentage of the portfolio invested in fixed deposits
LOANS	The percentage of the portfolio invested in loans
EQUITY	The percentage of the portfolio invested in equity
FOREIGN	The percentage of the portfolio invested in foreign investments
X_6 ***Other Factors***	
FEMDIR	The director is female
BRDEPEND	The country is a dependency of Britain
AGE	The age of the social security system (years)
NPF	The existence of a national provident fund prior to the introduction of the social security system
STDEV	Standard deviation
RSTDDEV	Rolling standard deviation

The explanatory variables as already mentioned earlier have been classified into six groups, and are summarised, together with the dependent variables in Table 5.10. The correlation matrix is presented in Table 5.11 and the descriptive statistics are presented in Table 5.12. Actual figures will be used for the quantitative measures and the qualitative measures are assigned dummy values of 0,1, if the answer to the question is "no" and "yes", respectively.

Table 5.11 Correlations (Pearson)

	NRORML	RRORML	BDCAB	BDGOV	DIRBD	DIRCAB	DIRGOV	DIRPSC
RRORML	0.135							
BDCAB	-0.235	-0.051						
BDGOV	0.023	-0.074	-0.170					
DIRBD	-0.205	-0.050	-0.090	-0.170				
DIRCAB	-0.235	-0.051	1.000	-0.170	-0.090			
DIRGOV	-0.029	-0.056	-0.187	0.012	-0.187	-0.187		
DIRPSC	0.080	-0.055	-0.137	0.806	-0.137	-0.137	-0.284	
PARTICIP	-0.296	0.028	-0.032	0.293	0.300	-0.032	0.127	0.236
TUNIONPT	0.017	0.119	-0.246	0.357	-0.246	-0.246	-0.511	0.557
EMPLINV	-0.097	0.088	-0.291	0.256	0.310	-0.291	-0.604	0.470
RESTRICT	-0.257	-0.081	-0.146	-0.275	0.618	-0.146	0.310	-0.221
EXTMGRS	-0.079	-0.052	-0.185	0.020	0.489	-0.185	0.507	-0.280
GINTENT	-0.162	-0.083	0.398	-0.086	-0.227	0.398	0.827	-0.344
FRATIO	-0.313	0.220	0.410	-0.246	0.046	0.410	0.020	-0.222
NPF	-0.077	0.069	0.236	-0.382	0.236	0.236	-0.472	-0.579
EQUITY	-0.006	-0.040	0.008	-0.144	-0.093	0.008	-0.126	-0.107
FOREIGN	-0.081	-0.007	-0.128	0.230	-0.073	-0.128	0.646	-0.190
FDEPOSIT	-0.143	-0.021	0.429	-0.152	0.024	0.429	0.401	-0.129
GOVT	0.228	-0.029	-0.266	0.146	-0.170	-0.266	-0.536	0.287
LOANS	-0.037	0.109	-0.216	-0.252	0.393	-0.216	-0.500	-0.093
FEMDIR	-0.098	0.006	-0.090	-0.170	0.245	-0.090	0.173	-0.137
BRDEPEND	-0.029	-0.056	-0.187	0.012	-0.187	-0.187	1.000	-0.284
BDINVCHN	-0.270	-0.110	0.335	-0.178	0.335	0.335	0.696	-0.409
AGE	0.265	0.005	-0.431	0.314	0.103	-0.431	-0.422	0.668
INVCOMP	0.270	0.078	0.144	-0.279	-0.258	0.144	-0.633	-0.189
INVSIZE	-0.012	0.077	0.231	-0.793	0.231	0.231	-0.277	-0.807
BDSIZE	-0.210	0.025	0.652	0.221	-0.150	0.652	-0.185	0.178
ADMINEXP	0.093	-0.035	-0.067	0.094	0.143	-0.067	-0.349	0.248
BENEFITS	0.084	-0.052	-0.092	0.086	0.160	-0.092	-0.393	0.246
RESERVES	-0.061	-0.022	-0.011	-0.053	0.100	-0.011	-0.069	0.041
STDEV	0.211	0.140	-0.089	-0.077	-0.745	-0.089	0.103	0.154
RSTDDEV	0.160	0.011	-0.141	-0.064	-0.199	-0.141	0.079	-0.021

	PARTICIP	TUNIONPT	EMPLINV	RESTRICT	EXTMGRS	GINTENT	FRATIO	NPF
TUNIONPT	0.425							
EMPLINV	0.582	0.845						
RESTRICT	0.128	-0.398	-0.049					
EXTMGRS	0.396	-0.445	-0.166	0.210				
GINTENT	0.100	-0.618	-0.731	0.206	0.368			
FRATIO	0.361	-0.010	0.015	-0.199	0.251	0.250		
NPF	-0.226	-0.078	0.054	-0.185	-0.017	-0.306	0.109	
EQUITY	-0.099	0.061	0.018	-0.178	-0.022	-0.113	-0.053	0.155
FOREIGN	0.227	-0.348	-0.377	-0.151	0.718	0.528	0.255	-0.097
FDEPOSIT	0.126	-0.380	-0.364	0.441	0.068	0.625	0.173	-0.304
GOVT	-0.362	0.374	0.293	-0.343	-0.478	-0.655	-0.384	0.178
LOANS	0.130	0.379	0.552	-0.021	-0.061	-0.592	0.064	0.384
FEMDIR	0.200	-0.152	-0.014	0.089	0.489	0.110	0.231	-0.097
BRDEPEND	0.127	-0.511	-0.604	0.310	0.507	0.827	0.020	-0.472
BDINVCHN	0.264	-0.734	-0.536	0.542	0.627	0.842	0.268	-0.165
AGE	-0.193	0.325	0.375	-0.084	-0.235	-0.642	-0.295	-0.370
INVCOMP	-0.683	0.078	-0.065	-0.601	-0.434	-0.509	-0.047	0.632
INVSIZE	-0.286	-0.245	-0.113	0.024	0.000	-0.126	0.234	0.810
BDSIZE	0.571	0.320	0.231	-0.487	0.049	0.201	0.581	0.089

Table 5.11 Correlations (Pearson) (Con't)

	PARTICIP	TUNIONPT	EMPLINV	RESTRICT	EXTMGRS	GINTENT	FRATIO	NPF
ADMINEXP	0.062	0.249	0.323	-0.120	-0.013	-0.365	-0.143	0.021
BENEFITS	0.004	0.247	0.330	-0.099	-0.047	-0.420	-0.219	0.057
RESERVES	0.158	0.084	0.138	-0.077	0.163	-0.071	0.159	-0.047
STDEV	-0.066	0.398	-0.021	-0.484	-0.354	0.045	0.192	-0.403
RSTDDEV	-0.048	0.108	0.002	0.005	-0.201	-0.005	0.074	-0.093

	EQUITY	FOREIGN	FDEPOSIT	GOVT	LOANS	FEMDIR	BRDEPEND	BDINVCHN
FOREIGN	0.028							
FDEPOSIT	-0.219	-0.123						
GOVT	0.019	-0.350	-0.743					
LOANS	0.221	-0.221	-0.527	0.163				
FEMDIR	0.210	0.461	-0.101	-0.268	0.126			
BRDEPEND	-0.126	0.646	0.401	-0.536	-0.500	0.173		
BDINVCHN	-0.152	0.482	0.621	-0.717	-0.399	0.242	0.696	
AGE	-0.028	-0.348	-0.292	0.411	0.181	0.010	-0.422	-0.564
INVCOMP	0.227	-0.309	-0.464	0.535	0.270	-0.169	-0.633	-0.635
INVSIZE	0.146	-0.165	-0.091	0.010	0.375	0.025	-0.277	0.006
BDSIZE	0.020	0.136	0.142	-0.241	-0.034	0.035	-0.185	0.111
ADMINEXP	0.492	-0.095	-0.247	0.029	0.267	0.353	-0.349	-0.274
BENEFITS	0.518	-0.175	-0.245	0.051	0.295	0.245	-0.393	-0.317
RESERVES	0.240	0.170	-0.141	-0.141	0.195	0.480	-0.069	-0.013
STDEV	0.080	-0.073	0.068	-0.069	-0.032	0.021	0.103	-0.370
RSTDDEV	-0.164	-0.104	0.176	-0.084	-0.149	-0.191	0.079	-0.110

	AGE	INVCOMP	INVSIZE	BDSIZE	ADMINEXP	BENEFITS	RESERVES	STDEV
INVCOMP	0.172							
INVSIZE	-0.401	0.534						
BDSIZE	-0.342	-0.066	-0.056					
ADMINEXP	0.330	0.139	-0.075	0.061				
BENEFITS	0.368	0.184	-0.050	-0.002	0.921			
RESERVES	0.105	-0.013	-0.023	0.135	0.536	0.481		
STDEV	0.172	0.141	-0.177	0.131	0.019	0.004	0.111	
RSTDDEV	0.019	-0.007	0.013	-0.119	-0.054	-0.067	-0.090	0.287

Table 5.12 Descriptive Statistics

Variable	N	N*	Mean	Median	TrMean	StDev
NRORML	157	0	7.791	7.310	7.636	2.702
BDCAB	157	0	0.0828	0.0000	0.0355	0.2765
BDGOV	157	0	0.2420	0.0000	0.2128	0.4297
DIRBD	157	0	0.0828	0.0000	0.0355	0.2765
DIRCAB	157	0	0.0828	0.0000	0.0355	0.2765
DIRGOV	157	0	0.2803	0.0000	0.2553	0.4506
DIRPSC	157	0	0.1720	0.0000	0.1348	0.3786
PARTICIP	157	0	46.20	57.00	47.64	20.89
TUNIONPT	157	0	0.4013	0.0000	0.3901	0.4917
EMPLINV	157	0	0.4841	0.0000	0.4823	0.5013
RESTRICT	157	0	0.1911	0.0000	0.1560	0.3944
EXTMGRS	157	0	0.2739	0.0000	0.2482	0.4474
GINTENT	157	0	0.3631	0.0000	0.3475	0.4824
FRATIO	150	7	16.198	15.035	15.830	6.326
NPF	157	0	0.6178	1.0000	0.6312	0.4875
EQUITY	149	8	0.872	0.000	0.577	2.026
FOREIGN	149	8	6.31	0.00	4.17	15.34
FDEPOSIT	149	8	49.69	46.60	49.41	26.66
GOVT	149	8	24.45	13.20	23.13	22.74
LOANS	149	8	16.25	12.90	15.51	13.06
FEMDIR	157	0	0.0828	0.0000	0.0355	0.2765
BRDEPEND	157	0	0.2803	0.0000	0.2553	0.4506
BDINVCHN	157	0	0.4459	0.0000	0.4397	0.4987
AGE	157	0	21.471	21.000	21.525	4.470
INVCOMP	157	0	45.69	33.30	45.21	30.02
INVSIZE	157	0	4.3949	5.0000	4.4255	0.7906

Table 5.12 (Con't) Descriptive Statistics

Variable	N	N*	Mean	Median	TrMean	StDev
BDSIZE	157	0	6.5605	7.0000	6.5106	1.1285
ADMINEXP	157	0	2157555	1411262	1985411	1924854
BENEFITS	157	0	4791524	2575593	4194877	5505546
RESERVES	157	0	128743568	83260116	106598538	204806557
STDEV	157	0	2.2542	2.3600	2.3080	0.7579
RSTDDEV	121	36	1.136	0.660	0.994	1.225

Variable	SE Mean	Minimum	Maximum	Q1	Q3
NRORML	0.216	0.260	19.350	6.175	8.930
BDCAB	0.0221	0.0000	1.0000	0.0000	0.0000
BDGOV	0.0343	0.0000	1.0000	0.0000	0.0000
DIRBD	0.0221	0.0000	1.0000	0.0000	0.0000
DIRCAB	0.0221	0.0000	1.0000	0.0000	0.0000
DIRGOV	0.0360	0.0000	1.0000	0.0000	1.0000
DIRPSC	0.0302	0.0000	1.0000	0.0000	0.0000
PARTICIP	1.67	0.00	67.00	40.00	57.00
TUNIONPT	0.0392	0.0000	1.0000	0.0000	1.0000
EMPLINV	0.0400	0.0000	1.0000	0.0000	1.0000
RESTRICT	0.0315	0.0000	1.0000	0.0000	0.0000
EXTMGRS	0.0357	0.0000	1.0000	0.0000	1.0000
GINTENT	0.0385	0.0000	1.0000	0.0000	1.0000
FRATIO	0.517	3.780	39.890	11.817	19.100
NPF	0.0389	0.0000	1.0000	0.0000	1.0000
EQUITY	0.166	0.000	16.000	0.000	0.600
FOREIGN	1.26	0.00	60.40	0.00	0.00
FDEPOSIT	2.18	2.31	100.00	31.00	68.70
GOVT	1.86	0.00	84.40	6.30	42.40
LOANS	1.07	0.00	55.80	5.45	26.50
FEMDIR	0.0221	0.0000	1.0000	0.0000	0.0000
BRDEPEND	0.0360	0.0000	1.0000	0.0000	1.0000
BDINVCHN	0.0398	0.0000	1.0000	0.0000	1.0000
AGE	0.357	14.000	28.000	18.000	25.000
INVCOMP	2.40	0.00	100.00	25.00	60.00
INVSIZE	0.0631	3.0000	7.0000	4.0000	5.0000
BDSIZE	0.0901	5.0000	9.0000	5.0000	7.0000
ADMINEXP	153620	87718	11903746	668803	3291664
BENEFITS	439390	4589	24386864	657793	7188750
RESERVES	16345343	724917	2286264411	25901289	173112406
STDEV	0.0605	0.3800	3.1800	2.1100	2.5100
RSTDDEV	0.111	0.050	5.350	0.360	1.225

The dataset will be made available to other researchers by contacting the author.

The traditional appointing process is expected to be negatively related to performance, especially the rate of return, as a board appointed by the cabinet or minister may be subject to demands by the government to invest in projects that do not necessarily yield the best returns. Though the appointment by the governor is meant to signify independence from government influence, because the governor is advised by the government in the nomination process, it is not expected that there will be any differences in the impact of a board appointed by the cabinet and that of the governor.

The only variable in this classification expected to show a positive impact is that of the director appointed by the PSC, since a PSC appointment is a constitutional appointment and once the appointment is made, the extent of political manipulations are limited.

The impact of board composition is expected to be mixed, with the impact expected to be negative on the rate of return the greater the percentage of plan participants because of their more conservative outlook on rate of return, if the board chairman serves the dual role of investment committee chairman, and the larger the board. The impact is expected to be positive if the investment committee comprises a greater proportion of non-board members, because of the independence and breadth of experience. The first three variables however are expected to have positive impact on funding ratio as they may insist on controlling costs.

The restrictions on foreign investment are expected to negatively influence the performance indicators as restrictions on investments lead to inefficient asset allocation, and as pointed earlier, the limited locally opportunities will serve to exacerbate the problem. The use of external mangers is expected to positively influence performance because of their more specialised knowledge and expertise and access to information.

The results of the portfolio composition are also expected to be mixed, with government bonds, fixed deposits and loans expected to have a negative influence as they are generally considered to be low-risk investments and equity and foreign investment positively impacting on performance as they are considered to be of higher risk. The presence of a female director is expected to be indeterminate, while if the country is still a British dependent state, the impact is expected to be positive on performance. It is expected that there would be less government interference in the management of the social security organisation. In the next section a brief rationale for using panel data as the methodology is discussed.

5.7 Panel Data Analysis

Given the size of the data set, nine social security organisations, and the fact that the organisations were established at different periods, panel data methodology was deemed to be the most appropriate approach for investigating the relationship between governance, performance and administration of social security organisations. By pooling the data, the number of observation increase, generating added degrees of freedom (Pindyck & Rubinfeld, 1998), thereby providing greater statistical significance to the results. This way, it allows for one to distinguish the effects of variables that may not be possible using either time series or cross section data. For example, in a time series analysis of the individual systems, it would not be possible to test for the impact of the main governance components, if there had been no changes in the appointments to the board from inception.

The number of observations is also limited. Antigua is the oldest social security organisation in the sample and has been in existence for twenty-seven years, whereas the sample average is eighteen years. In a cross section, the number of observation would be only nine, which would severely limit the degrees of freedom given the number of explanatory variables being tested. By using panel data, the number of observations has increased to one hundred and fifty-seven (157), although there is a downside in terms of the assumptions of cross-sectional homogeneity. The arguments for and the possible drawbacks of using the panel approach are as follows:

(1) The use of panel data significantly diminishes the problems associated with missing variables, since the effects of missing variables are accentuated if the sample is small. For example, there were no data for three years for the British Virgin Islands. If the data were present the total number of observations would have been 160; the percentage missing was about 2%. If a time series data were used for the BVI, the number of observations would be reduced to 16, giving a missing percentage of 16%. Further, if cross section analysis were conducted for those missing years, the number of observations would have been reduced to 6, i.e. 30% lower.

(2) Panel data reduce the problem of multicollinearity as the variables vary in two dimensions, time and cross-sectional. In principle, it also allows for more sophisticated models with less restrictive assumptions. It also allows for better identification of the independent variables affecting the dependent variable because it makes a distinction between residual heterogeneity associated with changes over time (period effects) and across the organisations (group effects) (Sinha, 1998).

(3) On the other hand, while the panel approach assumes homogeneity of the data, the data may change over time and over the cross sections and this means that the error term is likely to consist of time-series related disturbances, cross-section disturbances and a combination of both (Pindyck & Rubinfeld, 1998).

This should however, not pose too much of a problem with this data set as many of the independent variables are homogenous over the time period and there is a substantial amount of homogeneity among the social security organisations in the OECS. This homogeneity of the data presents its own sets of problems, including the limitations on the number of variables that can be tested and on the splits that can be performed to test for stability of the data set.

5.7.1 Techniques of Panel Data Use

There are various techniques for panel data use, ordinary least squares, fixed effects and random effects model.

In the *ordinary least squares model,* the time series and cross-section data are simply combined or pooled and the model is estimated using the ordinary least squares. Because it utilises the ordinary least squares, it also adopts the assumptions of that technique. It assumes linearity of the parameters, such that

$$Y_i = \beta_1 + \beta_2 X_i + u_i$$

The independent variables are also assumed to be non-stochastic and conditional mean value is of u_i is zero, such that $E(u_i| X_1) = 0$ (Gujarati, 1995). The main problem with this model is the assumption of the constant intercept and slope.

The *fixed effects model* corrects for this shortcoming by introducing dummy variables that allow for intercept to vary over time and cross-section units. The model does not allow for varying of the slope as this would make pooling of the data inappropriate (Pindyck & Rubinfeld, 1998). The model is written as follows:

$$Y_{it} = \alpha + \beta X_{it} + \gamma_2 W_{2t} + \gamma_3 W_3 + \ldots + \gamma_N W_{Nt} + \delta_2 Z_{i2} + \delta_3 Z_{i3} + \ldots + \delta_T Z_{iT} + e_{it}$$

Where

$W_{it} = \{1, 0$ for the ith individual, $i = 2, \ldots N$ otherwise

Z_{it} $\{1, 0$ for the tth time period, $t = 2, \ldots, T$

The number of dummy variables will be determined by (N-1) + (T – 1), to avoid perfect collinearity among the explanatory variables.

The inclusion of the dummy variables, however assumes a lack of knowledge about the model, which is often described through the error term.

The *random effects or error-components model* allows for the pooling of data in which the error terms may be correlated over time and across individual units. The model is written as follows:

$$Y_{it} = \alpha + \beta X_{it} T\ e_{it}$$

$$e_{it} = u_i + v_i + W_{it}$$

Where $u_i \sim N(o, \alpha^2_u)$ = cross section error term

$v_t \sim N(o, \alpha^2_v)$ = time-series error term

$W_{it} \sim N(o, \alpha^2_w)$ = combined error term

Other assumptions of the *random effects model* are that the individual components are not correlated and there is no autocorrelation across time and cross-section units. The fixed effects methodology is used for pooling the data in this study as a combination of both time series and cross-sectional analysis is employed.

5.8 Interviews

The mailed questionnaire is an inexpensive, yet appropriate method for collecting data, especially if the sample is large and widely dispersed (Barclay, 1998). However, mailed questionnaires often suffer from a low response rate and this was the reason why the face-to-face interview method was selected. Interviews were considered to be the best way of accessing the perspectives of the interviewee (Patton, 1990), which would provide the context for the results from the panel data analysis. This perspective is regarded as important for not only have the concerns of the stakeholders in the OECS not been voiced, their perspective is considered to be meaningful, knowable (Patton, 1990) and important in providing context to the analysis of the governance factors on the performance of the social security organisations.

There are three basic approaches to interviewing: (1) the informal conversational interview, (2) the general interview guide approach and (3) the standard open-ended interview. The informal conversational interview depends on spontaneous generation of questions, and is typical of a participant observation fieldwork. The general interview guide relies on an outline of issues to be discussed, but the order and wording of the questions are not standardised. The guide serves as a checklist to ensure that all relevant areas are covered. The standardised open-ended interview comprises a set of carefully worded and arranged questions, asked to each interviewee in the same sequence. Flexibility in probing is limited but it reduces the possibility of bias by having different questions for different people, and is thus a more systematic approach in obtaining data (Patton, 1990).

Standardised open-ended interviews were the main approaches used in collecting the qualitative data. However, in some cases, particularly with the directors and staff of the social security organisations, the informal and general interview guide approaches were used. This was specially used when clarifications were sought following interviews with the other stakeholders.

Three separate interview questions were prepared: (1) one to be applied to the directors, board members and ministers; (2) one to trade unions, employers' associations and employers and (3) one to the insurance and financial sectors. Most of the questions were asked of all the groupings, however, there were questions unique to each grouping. An example would be trade unions would be asked whether workers saw their contributions as a tax or saving, while employers and their representatives would be asked whether they saw it as a tax impairing competitiveness or as a benefit to employees. The interview questions are reproduced in Appendices 12a, b, and c.

5.8.1 Selection of the Interviewees

The interviews were selected with five main groupings, and the criteria for selection were seniority and knowledge of the social security issues. The criteria and description of each grouping are presented separately. The list of all those interviewed by category and country is provided for in Appendix 13.

5.8.1.1 The Board, Directors and Minister

The analysis of this dissertation encompasses nine social security organisations. All of the directors were interviewed. Two of the directors were interviewed twice, during the pilot study in 1999 and again in 2001. In 1999, four countries were selected for a pilot study: Antigua & Barbuda, Dominica, Montserrat and St. Kitts & Nevis. The main reason why these four countries were selected for the pilot was the proximity to each other thus making air travel between them cheaper.

In 2001, two of the directors who were in office no longer held the position. In 1999, Hudson Savarin was the director of the Dominica Social Security Scheme (DSSS), but in 2000, with a change in government, his appointment was terminated. Janice Jean Jacques has been acting director of the DSSB from July 2000 to present. In 1999, Rawlins Jemmot was acting director of the Montserrat Social Security Board (MSSB), in 1999 Kenneth Scotland was appointed as director, and Jemmot reverted to his substantive post as deputy director. Mr Jemmot was not interviewed in 1999, as on the day of the scheduled interview, he was taken ill. He however, posted answers to the questions, on return to office. The 2001 interviews were held with Janice Jean Jacques and Kenneth Scotland of the DSSB and MSSB, respectively.

It was hoped to have met the board and the minister in each of the territories, but this did not materialise. The board and minister were met only in Anguilla. In Anguilla, I sat in at a board meeting as an observer and had informal conversations with the board members, but a formal interview was conducted only with the chairman. Arrangements to interview the workers and the employers' representatives formally did not materialise due to time constraints. In the British Virgin Islands, an appointment was made to interview the chairman of the board, but due to unforeseen circumstances on his part and the time constraint, the opportunity for rescheduling never presented itself. In Dominica, the term of the board had expired and a new one not yet re-appointed during the period of the fieldwork in the country. The list of persons interviewed in this category is presented in Table 5.13.

From the table, it can be seen that a member of the board was not interviewed in only one country, Dominica but in every country a person associated with the policy making for social security was interviewed.

Table 5.13
The Board, Director and Minister Interviewed In The OECS

Country	Persons Interviewed
Anguilla	Director, chairman of the board, minister, first director and first chairman of the board, management and staff
Antigua & Barbuda	Director chairman of the board, workers representatives (1 in 1999), employers' representative (1999), management and staff
British Virgin Islands	Director, one each of the workers' representative and the employers' representative, management and staff.
Dominica	Director, permanent secretary in ministry of social security, management and staff
Grenada	Director, workers representatives, management and staff, former director
Montserrat	Director, government representative (1999), management and staff
St. Kitts & Nevis	Director, minister, one of the employers' representative (1999), management and staff, first director
St. Lucia	Director, one of the workers' representative, management and staff, first director
St. Vincent & The Grenadines	Director, chairman of the board, management and staff

5.8.1.2 Workers' Representatives

The aim was to interview the main trade unions in each of the countries. In some cases, all the trade unions were interviewed. The trade unions were identified from the "yellow pages" of the local telephone directories and from the other trade unions and the social security organisation. The executive directors of the social security organisations were also asked for a list of trade unions operating in the country and the names of the union represented on the board. In many cases, the "yellow pages" provided an accurate estimate of the number of trade unions. Table 5.14 presents the list of trade unions interviewed in the OECS.

Four countries, Anguilla, British Virgin Islands, St. Kitts and Nevis and St. Vincent and the Grenadines, provided interesting cases. In these countries, the trade union movement is almost non-existent. In Anguilla, there was just one general trade union, but the membership was about 20 persons and it has been dormant for many years. The other unions were the Civil Service Union (CSU), Teachers Union (TU), Nurses Association (NA) and Police Welfare Association (PWA). These, however, are mainly professional associations, with the bargaining on behalf of nurses and teachers conducted by the CSU. Interviews were conducted with the general union, CSU and the TU.

Table 5.14
Trade Unions Interviewed in the OECS

Country	Trade Unions
Anguilla	Anguilla Public Service Union, Anguilla Teachers' Union, Anguilla Trades and Labour Union, Anguilla Youth Council[21]
Antigua & Barbuda	Antigua Workers Union, Antigua Trades and Labour Union, Antigua and Barbuda Union of Teachers
British Virgin Islands	British Virgin Islands Taxi Men's Association
Dominica	Dominica Amalgamated Workers Union, Waterfront and Allied Workers Union, Dominica Trade Union, Dominica Public Service Union, Dominica Association of Teachers, Dominica Police Welfare Association
Grenada	Technical and Allied Workers Union, Bank and General Workers Union, Grenada Trade Union Council
Montserrat	Montserrat Police Welfare, Montserrat Nurses Association, Montserrat Union of Teachers, Montserrat Allied Workers Union
St. Kitts & Nevis	St. Kitts and Nevis Trades and Labour Union
St. Lucia	National Workers Union, St. Lucia Civil Service Union, Vieux Fort Seamen and Dock Workers Union, St. Lucia Teachers Union
St. Vincent & The Grenadines	National Workers Movement, St. Vincent and the Grenadines Public Service Union

[21] The Anguilla Youth Council is not a trade union, but given the absence of general trade unions, it was chosen as a representative of persons not belonging to the professional trade unions.

Interviews in Anguilla revealed that the main reason for the absence of a trade union culture is due to the fact that Anguilla had not been exposed to slavery, hence there was no need to unite against an oppressive class. Most of the persons engaged in small-scale family-owned subsistence farming. It was also posited that Anguillans are an individualistic people and only come together for a cause, like they did for the revolution that resulted in the separation from the unitary state of St. Kitts, Nevis, Anguilla in 1967.

In the British Virgin Islands, there was no listing of trade unions in the "yellow pages," but investigation revealed that there were two. Several attempts to contact the union's executive over the four-day period, while in the BVI, proved futile. It was also revealed that there is not a trade union culture in the BVI. In St. Kitts and Nevis, there is only one general trade union, the St. Kitts and Nevis Trades and Labour Union, and that union is associated with the Labour Party, the party forming the current government. The general secretary was interviewed.

In St. Vincent, there are three trade unions, but only one union has full time serving officers and staff. In the other unions, like in Anguilla and Montserrat, the members of the executive are "part-time" trade unionist, for they work their normal hours at their regular employment and attend to the affairs of the union after working hours. Interviews were conducted with two of the unions. Efforts over a three-week period to reach one of the other unions, from which incidentally one of the workers' representatives was drawn, failed.

5.8.1.3 Employers' Representatives

There are three main employers' associations in the OECS, the Employers Federation, the Chamber of Commerce and the Hotel and Tourism Association. There were however some variations. There were no Employers' Federation in Anguilla, British Virgin Islands and St. Kitts and Nevis. In two of these countries, it will be remembered the trade union movement was almost non-existent. Since the Employers' Federation serves as the trade union for employers, it may explain the absence. In Anguilla, the Anguilla Chamber of Commerce and Industry was launched in April 2001. In the British Virgin Islands, there is a joint Chamber and Hotel Association. Table 5.15 below indicates the associations interviewed in the OECS.

Table 5.15
Employers' Associations Interviewed in the OECS

Country	Associations
Anguilla	Hotel & Tourism Association, Chamber of Business and Commerce
Antigua & Barbuda	Employers' Federation, Chamber of Commerce
British Virgin Islands	Chamber of Commerce and Hotel Association
Dominica	Employers Federation, Conservation Association
Grenada	Employers' Federation, Chamber of Commerce
Montserrat	n/a
St. Kitts and Nevis	Chamber of Commerce
St. Lucia	Hotel and Tourism Association, Employers Federation
St. Vincent & The Grenadines	Employers' Federation, Chamber of Commerce

Montserrat is the only place where the employers' representatives were not interviewed. The employers' organisations have been dormant because of the volcanic crisis.

5.8.1.4 Employers

Though the representatives of the employers were interviewed, a sample of companies was identified for interviews. Though there was no scientific process in the selection of the companies, a cross section of industries was sought. Initially, emphasis was on the larger companies, but it was soon realised that this would provide a bias and so the sample was extended to include smaller companies and companies in the informal sector. The companies were identified from the "yellow pages," and this was later double-checked with staff at the social security organisations, to verify size of workforce and industry.

The persons targeted for the interviews were the human resource managers in the large companies. The owners or managers were targeted in the smaller companies, on the basis that in the small companies the owner or mangers would be the ones dealing directly with the social security and in setting policies for the company. In most of the cases, the interviewee was the target group, however in some cases the interviewee was the financial controller who dealt with social security matters. In a few cases (3), the manager was unavailable and the assistant was interviewed. Some of the respondents were unaware of the company policies on certain issues relating to social security. In some countries a larger number of employers were interviewed and this was as a result of their availability and also location. In some countries, example, Grenada, the employers were in diverse locations and not centred in the Capital and this posed some difficulty in getting around.

5.8.1.5 Insurance And Finance Companies

The main purpose of interviewing companies in the insurance and finance sectors was to obtain information relating to the level of private pension provisions in the OECS, and of the attitude of the insurance companies with respect to privatisation of the social security organisations. The "yellow pages", verified by the social security staff methodology of selecting the insurance companies was also employed.

It turned out that the methodology needed to be refined, as every insurance company, even some big ones, do not offer life insurance, and consequently, did not and could not provide packages aimed at retirement. In some cases, this was known at the beginning of the interview. The approach was then limited to identifying the life insurance companies. If a company operated a regional branch and an interview had been conducted in one country, that company was excluded from the sample in the other countries. On reflection, this should not have been done, as while the policies would be the same, the opportunity for obtaining first hand data of the number of private pension administered was lost. Only two finance companies offering private pension arrangements were identified in the OECS and both were interviewed.

5.8.2 Access to Interviewees

Access to the social security organisations to the ministers, boards, executive directors and staff of the social security organisations has been easy. The executive directors have been open and candid in their interviews, even in the one instance where the executive director was uncomfortable with the idea of interviewing staff and the board. In this instance while access to the board was not provided, access to the staff was made easy.

This research effort would have not been possible without their assistance as the data in many cases resides only in their institution. The requests for information were generally always met, and they never tire of meeting requests, answering questions, providing clarifications, even after the visit to the organisations. During the field visit, in many of the cases, a staff member, usually the statistician was assigned to provide the statistical information needed.

Where the data collected were incomplete, the reason was the unavailability rather than the unwillingness to provide it. This is noteworthy and has to be commended. For many researchers, access to organisations, especially to senior management is difficult and one of the main challenges of their research. This, however, was not the case in this research effort.

Access to the social security stakeholders was also easy and they must be commended for their generosity of spirit, their willingness to share and impart knowledge and for their time. In many cases, the appointments were arranged at short notice, yet the interviewees made the time. In only a few instances, maybe no more than three, was there an initial wariness to share and persons did not want the interview taped. However, after talking about general issues, example cricket (one topic to surely get a Caribbean person to speak!), persons opened up and shared freely.

5.9 Other Data Sources

To confirm some of the findings from the interviews and provide answers to questions, primary sources of data were used. Heavy reliance was placed on the Acts of Incorporation, Actuarial Reviews, the Minutes of the Debate of Parliament at the reading of the National Provident Fund Act, Social Security Act or National Insurance Scheme Act. Early files, addresses by ministers, reports commissioned by the social security organisations, and newspaper articles were also used to complement the information received and to frame the direction of this dissertation.

5.10 Conclusion

In this chapter, the data set was presented and described as well as the questions to be tested. The earlier empirical work done on corporate governance in a public pension setting was also presented, and the Mitchell & Hsin (1997) study was identified as the starting point for the analysis of this study. The way, in which this would be done, was also identified. In this chapter, a comparative analysis of the OECS systems and those in a selected group of countries, with respect to dependency ratio, spending and reserves in relation to GDP and importance of the social security systems was also presented. In the next chapter, the results of the multivariate analysis using OLS will be presented.

CHAPTER SIX - RESULTS OF REGRESSIONS

6.1 Introduction

The purpose of this chapter is to present the results of the multivariate analysis based on the methodology, data and explanations provided in Chapter Five. The dependent variables have been regressed on a variety of explanatory variables which capture governance structure, made up of the appointing process to the board and the board's composition, investment policies, portfolio composition, operational processes and other factors.

The chapter is organised as follows: in section two the sensitivity analysis to test the robustness of the results is presented, followed by the overall analysis of the results which is presented in section three. A comparative analysis of this study and the Mitchell & Hsin (1997) study is provided in section four. In section five, the results are presented based on a variety of combinations of the six explanatory variables classification. A brief discussion on the optimal structure for social security organisations is presented in section six and the conclusions of the chapter are contained in section seven.

6.2 Specification Tests

Specification tests were conducted to test the robustness of the results, particularly in respect of heteroscedasticity and autocorrelation, for which the Lagrange Multiplier Statistic and the Durbin-Watson test were used.

Tests were also performed to test the stability of the data by dividing the sample into different time periods. The regressions were also performed for the period 1990 – 1998, 1994 – 1998 and the results were not significantly different, though in some cases the strength of the relationship was reduced.

The results for the rate of return also factored in the risk of the return. There is no established capital market in the OECS and so it is difficult to measure the risk of the portfolio. It was therefore decided to measure the standard deviation of the past results on both a constant and a rolling five-year basis. This was performed individually for each social security organisation and the value derived was included in the panel data. Two formulas were used to calculate the risk of the portfolio: the constant standard deviation of both the nominal and real rate of return and the rolling standard deviation of both the nominal and real rate of return over a five-year period.

The constant standard deviation was calculated by finding the standard deviation of the rate of return over the entire period. In the case of the rolling five-year standard deviation, the return for five years would be measured, then the first year would be removed while the next year added, until all of the returns were included. Ideally ex ante risk measures would have been used, but these were not available. Using ex post measures may have introduced an element of endogeneity but this is unlikely to be significant. The results generally showed a stronger level of significance in almost every instance when the standard deviation is used as a risk measure. Outliers were removed from the equation, and the results also generally remained unchanged.

The sensitivity analysis suggests that the results are relatively robust to a range of alternative formulations. They confirm that the governance and portfolio composition are important variables in determining the performance of social security organisations and that there is a need to manage the investment portfolio independently.

6.3 Overall Analysis of The Results

Some factors significantly impacted on the rates of return and the funding ratios. It appears that in many cases the factors which appeared to lead to a lowering of the rates of return had a positive impact on funding ratios. This may suggest that the funding ratio may serve as an indicator of the risk averseness of the organisation. This may appear anomalous but it is not. Risk averseness will be reflected in investments of low risks which will lead to lower rates of return, while at the same time there may be an emphasis on cost control and collection of contributions and other income due, which will result in a higher funding ratio. If this pattern is consistent throughout the analysis, this may signify that two separate approaches are needed for the management of the investment portfolio and the organisation as a whole. The coefficients of the explanatory variables often differ depending on whether nominal or real rate of return is used as the independent variable, but generally the direction of the relationship is the same.

The explanatory variables used also appeared to be more applicable to explaining the determinants of the funding ratio than the rates of return. The variables, excluding those which were highly correlated, were tested in a multivariate analysis, using panel data, to determine whether the factors which were significant in a smaller setting would still be significant. The results are presented in Table 6.1. Only one explanatory variable was significant for all three dependent variables: the appointment of the board by the cabinet. The board's appointment by the cabinet had a negative influence on the rates of return, both nominal and real, but had a positive influence on the funding ratio.

Table 6.1
Determinants of Investment Returns and Funding Ratios in OECS Social Security System 1972 – 1999 (t-values against a null of zero are in brackets)

Explanatory Variable	NRORML	RRORML	F RATIO
X_1 Appointing Process			
BDCAB	-2.84	-6.54	15.36
	(-2.30)	(-2.63)	(8.57)
BDGOV	2.17	-5.07	-7.18
	(1.31)	(-1.46)	(-2.42)
DIRBD	1.13	0.11	8.03
	(0.53)	(0.02)	(2.09)
TUNIONPT	-0.39	1.74	10.88
	(-0.46)	(0.84)	(9.02)
X_2 Board Composition			
INVCOMP	0.08	0.07	0.09
	(3.02)	(1.29)	(1.77)
INVSIZE	1.25	-0.96	0.87
	(0.98)	(-0.40)	(0.37)
X_3 Investment Policies			
EXTMGRS	0.47	-1.20	3.13
	(0.52)	(-0.69)	(1.93)
X_4 Portfolio Composition			
EQUITY	-0.13	-0.24	-0.19
	(-1.21)	(-0.77)	(-0.96)
FOREIGN	-0.01	0.10	0.29
	(-0.32)	(1.41)	(5.46)
GOVT	-0.02	-0.05	-0.07
	(-1.45)	(-1.50)	(-2.92)
LOANS	0.01	-0.04	-0.04
	(0.37)	(-0.77)	(-1.12)
X_5 Operational Process			
BENEFITS	7.0E76	5.6E-6	-2.9E-6
	(1.32)	(2.38)	(-3.18)
RESERVES	-0.00	-2.0E-6	-0.00
	(-0.71)	(-0.62)	(-0.30)
FRATIO	-0.07	3.48	n/a
	(-1.51)	(2.49)	
X_6 Other Factors			
AGE	-0.18	-0.09	0.26
	(-1.38)	(-0.37)	(1.05)
NPF	-4.99	-0.94	-4.64
	(-2.77)	(-0.27)	(-1.42)
Adjusted R^2	29.8%	32.8%	65.9%
No of Observations	138	123	138

This is consistent with the arguments that independence and autonomy from government are needed with respect to the management of the investment portfolio, while accountability and transparency are vital ingredients in the overall management of the social security organisations. This appears to be confirmed by the statistical significance of the composition of the investment committee, made up of members who are non-board members and the negative impact of the board appointed by the governor on the funding ratio. The results with regard to the composition of the investment committee appear to support the arguments of agency theorists, presented in Chapter Four, who view the outside directors as contributing to the "*breadth*" of an organisation, bringing in skills and competencies that are absent and providing independent assessments of actions considered and taken by organisations (Kesner & Johnson, 1990; Bacon & Brown, 1975; Vance, 1983). The negative influence of the board appointed by the governor on the funding ratio may arise from the lack of accountability of the board to the governor who appoints it.

The results of the investment committee composition is also significant, albeit at the 10% level on the funding ratio, suggesting in addition, the role for the investment committee as one of a "check and balance" on management (Vance, 1983). The other factor which influences the nominal rate of return, is the transitioning of the social security system. If the social security system replaced a provident fund system, this appears to lower the rate of return. This may be due to the earlier payments of benefits, in particular pension benefit, as a result of the transitioning provisions for former members of the National Provident Fund. Another reason may be the practices of government under the provident fund system. If the government had big borrowings or had defaulted on its payments, this trend is likely to continue under the social security system and this would impact negatively on the rate of return achieved.

Two factors which are significant in explaining the real rates of return, are the benefit expenses and the funding ratio. The positive coefficient on the benefits is unexpected but is consistent with the conclusion that because benefit expenses are not indexed to inflation, as the rate of inflation rises, the value of the benefits decline, thereby lowering the costs to the social security organisation.

Seven factors were significant at the 5% or 1% level with two additional factors being significant at the 10% level when the funding ratio is regressed on them. Four of the seven factors positively influence the funding ratio. They are the board appointed by the cabinet, the director appointed by the board, the involvement of the trade unions in the nomination process and the percentage invested in the foreign market. The three factors which have a negative influence on the funding ratio are the board appointed by the governor, the percentage invested in government bonds and benefit expenses. These factors indicate that the governance, portfolio composition and operational factors are significant determinants of the funding ratio, with the board composition and investment policies also playing important roles.

The positive coefficients on the explanatory variables in the appointing process suggest that accountability, transparency and partnership-building are important determinants of funding ratio. This is confirmed by the negative coefficient on the board appointed by the governor, where there is no reporting relationship between the governor and the board he/she appoints, once appointed.

It is surprising that when the explanatory variables are all combined in a multivariate analysis, that the portfolio composition is insignificant with regards to both the nominal and real rate of return, but is significant in relation to the funding ratio. This, however, suggests that diversification of the investment portfolio is important in terms of the overall administration of the social security organisations. The investment in government bonds is insignificant with regards to the rate of return but negatively impacts on the funding ratio, suggesting that the default on the interest and principal due from those bonds jeopardises the sustainability of the social security systems.

As expected benefit expenses negatively influence the funding ratio. This gives support to the arguments that as the system and age dependency increases so too will the benefit expenditures under any system (Barr, 1987; Myers, 1998). The two factors which are significant at only the 10% level on the rate of return are the composition of the investment committee and the use of external managers. They are both positive and suggest that as more independent persons are involved, they bring in not only expertise and professionalism, but also serve as a "check and balance," which fosters accountability and thus performance.

The results indicate that the explanatory variables used are better at explaining the funding ratio, which is a proxy for the overall management of the social security system, than the rate of return. They also indicate that there are elements of "best practice" for both the management of the investment portfolio and the social security system. Elements important for enhancing the portfolio returns are independence and autonomy in the decision-making and the recruitment of qualified and trained personnel.

Best practice in the overall management of the system includes the need for autonomy, accountability, transparency, partnership building, diversification of the investment portfolio, professionalism, careful analysis of investment options and the collectability of monies due to the organisation.

6.4 Comparison of The Results With Mitchell & Hsin (1997)

In this section, a comparison with the results obtained by Mitchell & Hsin (1997) is presented. This analysis will also serve to highlight the contribution of this study and the areas in which it has extended the work of Mitchell & Hsin, presented in Chapter Five. In Table 6.1, the determinants of the investment returns and funding ratios in the OECS social security organisations were presented.

In Tables 6.2 and 6.3, the determinants of the investment returns and funding ratio of the US State and local pension plans are presented. In Table 6.3, only the results for the stock funding ratio will be presented as this is the measure tested in this study and also because the stock funding measure is a more reliable measure than the flow funding measure. The description of the variables was presented in Chapter Five (Table 5.1).

An examination of the Tables 6.1, 6.2 and 6.3, will reveal that this study did not replicate the study by Mitchell and Hsin (1997), but rather used it as a building block to explain the factors that influence the performance of the social security organisations in the OECS. The performance measures used are similar, in that both studies use the rate of return and the funding ratio. There are however, some differences in the measurement of the performance variables. In this study, the rates of returns are the individual rates of return from the inception to 1999, while in the Mitchell & Hsin (M&H) (1997) study the rates of return were the return achieved for one year (1990) and the average over a five-year period (1986-1990). There is also some differentiation in the calculation of the funding ratio in the two studies, with this study using the ratio of current expenses to reserves of the past year, while the M & H (1997) study focuses on the pension obligation.

Table 6.2
Determinants of Investment Returns in US State and Local Pension Plans (Mitchell & Hsin, 1997)

Explanatory Variables	1990 Return	5 Yr Av Return
Pension Board Composition		
BDELAC	-0.01	-0.02
BDELRT	-0.17**	-0.002
Pension Management Practices		
ADINVST	-0.34	-1.24**
INVINHS	0.80	0.60
TOP10MG	-0.49	-0.32
TOP10*EXT	-0.08	1.03
Pension Investment Practices		
INSTATE	-0.08*	-0.02
PRUDMAN	0.83	0.33
STKMAX	-0.03	0.57
Pension Reporting Practices		
INDINVPF	-1.16	-0.57
FREQVAL	0.70	0.13
R^2	11.3	12.4
N	158	132

** t ≥1.96; * t ≥1.65(< 1.96)

There were only three explanatory variables that were similar to this study and that of Mitchell & Hsin (1997): the percentage of plan participants on the board, the use of external managers in the management of the investment portfolio and the in-state investment of the portfolio. In this study, the instate investment is represented by the percentage invested in loans. The percentage of plan participants was highly correlated with the composition and size of the investment committee, and it was removed from the multivariate analysis of all the variables and is instead represented by the involvement of the trade unions in the nomination and appointment process of the board. This provides the opportunity for testing the relationship of the plan participants without sacrificing the relationship test of the investment committee. In this study, a test was not conducted for the percentage of retired persons elected to the board.

Table 6.3
Determinants of Funding Ratio in US State and Local Pension Plans (Mitchell & Hsin, 1997)

Explanatory Variables	Stock Funding Ratio
Pension Board Composition	
BDELAC	-0.20**
BDELRT	-0.61*
Pension Management Practices	
BDBENOK	-1.34
BDACTOK	13.02*
LIABINS	13.47**
ACCINHS	11.14**
Pension Reporting Practices	
REPSOLO	4.86
GIVERPT	8.62
AMORTPER	-1.25**
Pension Assumptions	
WDOT	-4.30
PORTABLE	-13.35**
NEXPROR	-0.51
INFL	-3.24
Other Factors	
UNEMPD	-6.07**
FUNDLAW	0.12
BENNOCUT	3.41
DEFPOS	7.78
SPECTAX	3.68
R^2	28.9
N	217

Source: Mitchell & Hsin (1997) ** t ≥1.96; * t ≥1.65(< 1.96)

The results of this study echo that of M&H (1997) with regards to the involvement of plan participants on rate of return as being insignificant, but unlike their results which showed plan participants having a negative effect on the funding ratio, the results of this study shows that the involvement of plan participants has a positive and significant influence on the funding ratio. The study also echoes their results with respect to the use of external managers on the rate of return, finding that the use of the external managers does not appear to have a statistically significant effect on the rate of return. They found that instate investment had a negative influence on the rate of return but only for the one year return (1990) and at the 10% level of significance. The findings from this study finds that the investment in loans has a positive influence on the nominal rate of return but negatively impacts on the real rate of return and on funding ratio, however, the results are not statistically significant. This also compares with the result of Munnell and Sunden (1999) who using the same data set as M&H (1997) found that instate investment was positive and significant when the returns were averaged over five years but insignificant for the annual return. They explained that the difference in their results arise from the fact that M&H (1997) imputed missing values while they did not.

In this study tests were conducted not just on the board composition, but also on the appointment process and the investment policies in terms of the restrictions imposed on foreign investments. M&H (1997) tested for the effect of maximum limits on stock, while the actual percentages of stock are used in this study. They found the restrictions on equity holdings to be insignificant. The holding of equity in the OECS social security organisations is insignificant on the three performance measures. This may be because of the small amounts invested in equity. A discussion on the portfolio composition was provided in Chapter Five.

The R^2 on the multivariate analysis for this study is significantly higher than that of M&H (1997) and suggests that the explanatory variables used in this study do a better job of explaining the influences on rates of return and funding ratio of the social security system in the OECS, than theirs provided for the US PERS market. The R^2

for the nominal rate of return in this study is 29.8% compared with 11.3% and 12.4% of the M&H study. The R^2 for the funding ratio in this study is 65.9%, compared with 28.9% for the M&H study. The higher R^2 in both studies for funding ratio than rates of return seems to provide confirmation that the explanatory variables used to measure governance do a better job at explaining the relationship with the funding ratio than with the real rate of return.

6.5 The Results By Classification of The Explanatory Variables

The results will be presented for the three dependent factors and the classification of the explanatory variables

6.5.1 Governance Structure

The governance structure is captured by two explanatory variables, the appointing process (X_1) and the board composition (X_2). The appointing process variable X_1 captures the appointment of the board and director and also the involvement of the trade unions and employers' organisations in the nominating and appointing process. In Chapter four, it was argued that while the Acts of Incorporation in many of the Organisation of Eastern Caribbean States (OECS) makes provision for consultation with the workers and employers' representatives, there is great disparity in how this process takes place. Here, the aim is to determine the impact of the involvement of the shareholders.

The trade union involvement and that of the employers' representatives are very highly positively correlated across social security funds, and the decision was taken to drop out the employers' representatives' involvement in the multivariate analysis, as otherwise the director appointed by the governor would have to be eliminated from the equation. This is because of the high negative correlation between the two variables. The board and the director being appointed by the cabinet were highly positively correlated and so too the board that is appointed by the governor and the director appointed by the PSC. The decision was taken to exclude the director appointed by the cabinet and PSC from the equations, to enable the effect of the board's appointing process to be tested. The results of the appointing process are captured in Tables 6.4 and 6.5.

The board composition variable X_2 captures the percentage of the board that represents workers and employers, the percentage of the investment committee members who are non board members, the chairman of the board serving in the dual role of chairman to the investment committee and the size of the board and investment committee. The percentage of plan participants is highly correlated with the composition of the investment committee and the size of the board. In the multivariate analysis the percentage of plan participants was excluded from the multivariate regressions, as the involvement of plan participants is captured by the variable involvement of trade unions. The results are presented in Tables 6.5 and 6.6.

6.5.2 The Appointing Process

The results in Table 6.4, relate to the explanatory variable X_1, which captures the appointing process from equation 1 to 3 in Chapter Five. The results of the univariate analysis are presented in Table 6.5.

Essentially equivalent results are obtained whether nominal or real rate of return are used as dependent variables, except that in a few instances, example with respect to the board being appointed by the governor and director appointed by the PSC, the sign of the coefficient changes. In a few instances the significance level also changes. When the funding ratio is used as the dependent variable, the results appear to be almost opposite to those for the rates of return. This may also be an indication of risk averseness as mentioned in section 6.3. If the organisation is risk averse, this will be reflected in investments of low risks which will result in lower rate of return, and at the same time, there will be an emphasis on cost reduction and efficient collection of contributions and other monies due to the organisation. This will then result in an increase in the funding ratio.

The results in Table 6.4 show that three variables impact negatively on both nominal and real return, namely the appointment of the board by the cabinet and the director by the board and governor.

Table 6.4
Results of Appointing Process Of The SSO In The OECS - Multivariate Analysis (t-values against a null of 0 are in brackets)

Variables	NRORML	RRORML	FRATIO
X_1 Appointing Process			
BDCAB	-4.32	-5.26	13.94
	(-4.98)	(-3.44)	(7.55)
BDGOV	0.24	-2.55	-3.99
	(0.46)	(-2.71)	(-3.66)
DIRBD	-4.05	-5.09	6.10
	(-4.67)	(-3.32)	(3.39)
DIRGOV	-2.41	-2.63	6.11
	(-3.64)	(-2.12)	(4.37)
TUNIONPT	-2.31	-1.17	6.60
	(-3.54)	(-0.97)	(4.79)
No of Observations	151	134	145
Adjusted R^2	16.4%	13.5%	31.4%

The appointment of the board by the governor has no statistical significance in relation to nominal rate of return but is very significantly negative in terms of real return. This may suggest that the investments made are not good hedges for inflation. Also, while the involvement of the trade unions is highly negatively significant in terms of nominal rate of return, it becomes insignificant, though still negative in relation to real return.

Most of the variables explaining the appointing process impact negatively on the rates of return. This seems to suggest two things: one the persons involved in the investment process are risk averse and so the lower rate of return represents the investment in safer assets, whose returns are ultimately lower. Secondly, it may also suggest that non-optimal investment decisions are taken as the boards and directors are subject to pressure from central government or other government agencies. The appointments by the governor is meant to signify independence from government, but the results indicate that with regard to the board, this independence may be one more of appearance than fact.

In looking at the results for the funding ratio, all the factors, with the exception of the board appointed by the governor, are positive. The funding ratio incorporates the management of several components, such as contribution collection, expense control and the investment of the portfolio, and the results appear to suggest that accountability and transparency are important elements in the management of the funding ratio and consequently of the organisation. The board appointed by the cabinet becomes accountable to not just the minister, but also the cabinet and so there may be greater pressure to ensure performance, as the cabinet ministers cannot use as a scapegoat the fact that the appointment is done by the minister or governor.

The positive effect of the involvement of the trade unions on the funding ratio also serves to confirm the importance of accountability and transparency on performance. It also suggests the importance of partnerships in the success of social security systems. The fact that the board appointed by the governor has a significantly negative influence on the funding ratio may suggest that because there is no reporting link between the board and the governor, there is little, if any accountability to the appointing authority. It may therefore suggest the need for a reporting relationship between the board and the appointing authority, which implies that accountability is an essential element for performance.

The results of the explanatory variables of the appointing process, performed in a single regression are presented in Table 6.5. The results show that some factors maintain their relationship when regressed in a multivariate analysis, while the interrelationships between some factors alters the relationship on performance. The appointment of the director by the governor individually has no statistically influence on the three performance measures, but when combined with the other variables measuring the appointing process, its impact is negative on the rates of return and positive on the funding ratio.

In some cases the level of significance is increased when regressed in a multivariate analysis, for example the influence of the board appointed by the governor on the real rate of return and the director appointed by the board on both measures of the rates of return, (see Table 6.4). It is however, surprising that the director appointed by the governor has a positive impact on the funding ratio given there is also no reporting relationship between the director and the governor. This may be explained by the fact that while there is no direct reporting relationship between the director and the governor, the director reports to the board.

Table 6.5
Results of Appointing Process Of The SSO In The OECS – Univariate Analysis (t-values against a null of 0 are in brackets)

Variables	NRORML	RRORML	FRATIO
X_1 Appointing Process			
BDCAB	-2.29	-2.77	9.53
	(-3.01)	(-2.12)	(5.47)
BDGOV	0.14	-1.93	-3.60
	(0.28)	(-2.08)	(-3.08)
DIRBD	-2.01	-2.57	1.02
	(-2.61)	(-1.97)	(0.55)
DIRCAB	-2.29	-2.77	9.53
	(-3.01)	(-2.12)	(5.47)
DIRGOV	-0.18	-0.86	0.28
	(-0.36)	(-0.99)	(0.24)
DIRPSC	0.57	-1.62	-3.69
	(1.00)	(-1.45)	(-2.76)
TUNIONPT	0.07	1.13	-0.33
	(0.16)	(1.41)	(-0.31)
EMPLINV	-0.52	8.97	0.20
	(-1.21)	(1.03)	(0.19)
No of Observations	156	134	150

When the funding ratio is regressed on the director appointed by the Public Service Commission (PSC) the result is negative and significant. The PSC is the arm of government responsible for making appointments to the Civil Service and the appointments by the PSC are usually constitutional appointments and persons so appointed are not easily dismissed. In addition, the director, though appointed by the PSC, does not report to the PSC but instead reports to the board and minister, who do not have the power to dismiss him, though the minister can request a transfer to another posting. This may foster an attitude of complacency and would appear to confirm the position of the World Bank (1994) and others that the public service is essentially inefficient. The result was surprising as it was expected that the greater autonomy enjoyed by the director appointed by the PSC would lead to higher performance, as there was security of tenure. It is argued that the results suggest that autonomy without accountability leads to poor performance, and it is this rather than the alleged inherent inefficiency of the public service, which leads to poor performance.

6.5.3 The Board Composition

The results for the board composition, represented by X_2, in the equations 1 to 3 in Chapter Five are presented in Tables 6.6 and 6.7, depicting the results from the multivariate and univariate analyses, respectively. The variable "PARTICIP" is highly correlated with both the variables "INVCOMP" (negative), showing the percentage of investment committee members who are not members of the board and "BDSIZE" (positive) and it was excluded from the multivariate analysis.

Table 6.6
Results Of Board Composition Of The SSO In The OECS – Multivariate Analysis (t-values against a null of 0 are in brackets)

Variables	NRORML	RRORML	FRATIO
X_2 Board Composition			
INVCOMP	0.03	0.04	-0.01
	(2.63)	(1.63)	(-0.60)
BDINVCHN	-0.05	-1.10	1.91
	(-0.08)	(-0.97)	(1.54)
INVSIZE	-0.77	-0.01	2.53
	(-2.08)	(-0.02)	(3.45)
BDSIZE	-0.48	-0.36	3.22
	(-2.60)	(-1.11)	(9.30)
No of Observations	151	134	145
Adjusted R^2	12.1%	9%	44.6%

A weakening of the relationship can be observed in most cases, when a multivariate analysis is performed. The composition of the investment committee impacts positively on the rate of return and is insignificant in relation to the funding ratio, in both regressions. The dual role performed by the chairman of the board also serving as the chairman of the investment committee is insignificant when regressed in a multivariate analysis but negative with respect to the rates of return and positive on funding ratio in the individual regressions.

The results indicate that the greater the number of persons independent of the board on the investment committee the higher the return. This suggests that persons from outside the organisation and board bring in a different perspective to bear on investment decisions and may tend to offset some of the conservative tendencies of the board, especially where it is tripartite. It may also suggest that the outsiders bring in expertise and knowledge not resident within the board and the organisation and provide some independence from management, as posited by Kesner and Johnson (1990).

The size of the board and investment committee impacts negatively on the nominal rate of return but it is insignificant with respect to the real rate of return, though still negative, in the univariate analysis. This may suggest that the larger the board and investment committee, the slower the decision and this may result in lost investment opportunity.

It can again be observed that the influence on the funding ratio is largely positive by the same variables that are largely negative on the rate of return. When all the factors are regressed together, the size of the investment committee and the board are the factors with statistical significance implying that the larger the board and committee, the greater the level of expertise and knowledge, but also suggest that the larger boards encourage partnerships with various social partners. This partnership may be instrumental in fostering greater compliance, transparency and accountability, which impacts positively on the management of the social security organisations.

Table 6.7
Results Of Board Composition Of The SSO In The OECS – Univariate Analysis (t-values against a null of 0 are in brackets)

Variables	NRORML	RRORML	FRATIO
X_2 Board Composition			
PARTICIP	-0.04	-0.04	0.10
	(-3.77)	(-2.04)	(4.40)
INVCOMP	0.02	0.05	-0.01
	(3.31)	(3.78)	(-0.39)
BDINVCHN	-1.45	-2.57	3.39
	(-3.36)	(-3.41)	(3.38)
INVSIZE	-0.08	0.73	1.97
	(-0.27)	(1.42)	(3.01)
BDSIZE	-0.50	-0.35	3.20
	(-2.60)	(-1.02)	(8.55)
No of Observations	151	134	145

6.5.4 Investment Policies

This section looks at the influence of the restrictions placed on foreign investments, the use of external managers and the initial intent of government with respect to the funds accumulated by the social security system. This corresponds to X_3 in equations 1 to 3 in Chapter Five. The results are presented in Tables 6.8 and 6.9.

When combined, the restrictions on foreign investment variable which was negative and significant when regressed singularly becomes insignificant, though still negative.

When the rate of return is regressed on the use of external managers, the coefficient is positive, as expected but insignificant. As expected, the initial intent of safety leads to a lowering of the rates of return, as greater emphasis is placed on safety, which results in low risk investment decisions.

The imposition of restrictions on foreign investment has a negative impact on the funding ratio; both individually and when combined with the other factors. This suggests that not only is the restriction leading to non-optimal investment decisions, but the cost of monitoring compliance also appears to be high.

Table 6.8
Results Of Investment Policies Of The SSO In The OECS – Multivariate Analysis (t-values against the null of 0 are in brackets)

Variables	NRORML	RRORML	FRATIO
X_3 Investment Policies			
RESTRICT	-0.90	-1.40	-7.64
	(-1.39)	(-1.27)	(-5.53)
EXTMGRS	0.72	1.52	0.43
	(1.17)	(1.46)	(0.33)
GINTENT	-1.45	-2.68	6.55
	(-2.24)	(-2.46)	(4.74)
No of Observations	151	134	145
Adjusted R^2	7.6%	9.0%	23.1%

The use of external managers has a positive impact on the funding ratio in the univariate analysis but becomes insignificant when combined with the other regressors. This implies that if there are restrictions on the portfolio with regards to foreign investments and other investments decisions, the use of external managers may not be optimal as the SSO do not benefit from the full array of expertise and resources at the disposal of the external managers. For example, the Montserrat Social Security Board (MSSB) with about forty percent of the portfolio managed by an external manager in the ten year period 1989 – 1999 had less than one percent invested in equity and a look at the investment schedule will show a heavy concentration in US government treasury bills and bonds and fixed deposits (MSSB Financial Statements 1989 – 1999). The British Virgin Islands Social Security Board (BVISSB) has employed the services of external managers for at least five years, yet 1999 was the first year in which the portfolio had equity investments (16%) (BVISSB Financial Statements, 1982 –1999). (See Appendices 5 & 8 detailing the portfolio composition for these organisations). This suggests that the expertise of these managers is not being fully utilised. It may also suggest that the returns after fees and commissions may not be adding value to the overall portfolio of the organisations.

Table 6.9
Results Of Investment Policies Of The SSO In The OECS – Univariate Analysis

Variables	NRORML	RRORML	FRATIO
X_3 Investment Policies			
RESTRICT	-1.72	-2.84	-3.01
	(-3.19)	(-3.13)	(-2.37)
EXTMGRS	-0.45	-0.54	3.39
	(-0.91)	(-0.61)	(3.02)
GINTENT	-0.88	-1.77	3.22
	(-1.94)	(-2.23)	(3.08)
No of Observations	151	134	145

6.5.5 Portfolio Composition

This section looks at the influence of the portfolio composition on the performance of the social security organisations. The asset classes regressed is the percentage invested in equity, foreign investments, fixed deposits, government bonds and treasury bills and loans. Fixed deposits are highly negatively correlated with government bonds and loans and in the combined regressions fixed deposits are excluded. The results are presented in Tables 6.10 and 6.11. The results correspond to the variable X_4 presented in equations 1 to 3, in Chapter Five.

The results in Table 6.10 are surprising with respect to the influence of the portfolio composition on the rates of return and the funding ratio. The portfolio composition appears to have a greater influence on the funding ratio than on the rate of return of the portfolio. When regressed together only government bonds appear to significantly affect the nominal rate of return and only equity impacts upon the real rate of return.

This suggests that equity may be a good hedge during periods of inflation and that government bonds of the OECS are not as risk-free as is assumed. This offers some confirmation to the position taken by Mounbaga (1998), presented in Chapter Three, that government debt in microstates is a risky investment. This may be due to the risk of default by government on both interest and principal payments. In Chapter Five, evidence was provided of government's default on interest and principal payments in some of the OECS countries.

Table 6.10
Results Of Portfolio Composition Of The SSO In The OECS – Multivariate Analysis (t-values against a null of 0 are in brackets)

Independent Variables	**Dependent Variables** NRORML	RRORML	FRATIO
X_4 Portfolio Composition			
EQUITY	0.02 (0.22)	0.52 (2.10)	-0.24 (-0.98)
FOREIGN	-0.01 (-0.36)	0.02 (0.49)	0.07 (1.82)
GOVT	0.03 (2.68)	0.01 (0.47)	-0.10 (-4.09)
LOANS	-0.02 (-1.11)	0.02 (0.53)	0.08 (2.01)
No of Observations	144	127	138
Adjusted R^2	3.4%	1.8%	15%

The negative influence of government bonds and bills on the funding ratio, when regressed either in a multivariate or univariate single framework suggests that the default by government of its obligations jeopardises the sustainability of the social security system. The investment in fixed deposits negatively influences the rate of return, though the influence on the nominal rate of return is significant at only the 10% level. The significance at the 5% level on the real rate of return also provides some confirmation that fixed deposits are not good hedges for inflation and investments in fixed deposits during inflationary period will lower and negatively impact on the rates of return. The positive influence of fixed deposits on the funding ratio may be due to the lower monitoring costs.

Table 6.11
Results Of Portfolio Composition Of The SSO In The OECS – Univariate Analysis (t-values against a null of 0 are in brackets)

Variables	NRORML	RRORML	FRATIO
X_4 Portfolio Composition			
EQUITY	-0.00	0.56	-0.12
	(-0.02)	(2.43)	(-0.47)
FOREIGN	-0.02	-0.00	0.10
	(-1.02)	(-0.14)	(2.74)
FDEPOSITS	-0.01	-0.03	0.04
	(-1.69)	(-2.01)	(2.25)
GOVT	0.03	0.02	-0.10
	(2.82)	(0.79)	(-4.65)
LOANS	-0.01	0.03	0.02
	(-0.57)	(1.19)	(0.58)
No of Observations	144	127	138

The percentage invested in foreign investments is insignificant in relation to the rates of return, and this may be because of the limited amount of investments in the foreign market. The use of foreign investments appears to be positively related to the funding ratio. It is difficult to draw conclusions from this, but it appears to suggest that funds which do not have immediate claims to their resources can take greater investment risks by investing in the foreign market. The investment in loans is insignificant with regards to the three performance factors individually, but positively influences the funding ratio in a multivariate framework. This may again suggest that diversification of the portfolio is beneficial to the overall performance of the social security systems.

6.5.6 Operational Process

This classification looks at the influences of administrative expenses, benefit expenses, reserves and the funding ratio on performance. Actual values are used for the first three variables. This classification corresponds to X_5 in equations 1 to 3, in Chapter Five. Administrative expenses are highly positively correlated with benefit expenses, implying that as benefit expenses increase, so too do administrative expenses and they have been excluded from the combined regressions. The results are presented in Tables 6.12 and 6.13.

Table 6.12
Results Of Operational Process Of The SSO In The OECS – Multivariate Analysis (t-values against a null of 0 are in brackets)

Variables	NRORML	RRORML	FRATIO
X_5 Operational Process			
BENEFITS	6.0E-7	7.0E-7	-4.1E-6
	(1.41)	(3.76)	(-4.16)
RESERVES	-0.00	-3.0E-7	1.0E-7
	(-0.43)	(-2.89)	(3.79)
FRATIO	-0.11	0.23	n/a
	(-3.61)	(3.12)	
No of Observations	151	134	145
Adjusted R^2	11.1%	10.6%	12%

The increase in the real rates of return as benefit expenses increase is unexpected, however this indicates that as inflation rises, the value of the benefits fall, thus leading to a lowering of the costs to the SSO. This is consistent with economic theory. As expected, benefits impact negatively on the funding ratio as the higher the expenditures, the lower the reserves and consequently the lower the funding ratio.

Table 6.13
Results Of The Operational Process Of The SSO In The OECS – Univariate Analysis (t-values against a null of 0 are in brackets)

Variables	NRORML	RRORML	FRATIO
X_5 Operational Process			
ADMINEXP	1.3E-6	4.7E-6	--4.5E-6
	(1.15)	(1.90)	(-1.70)
BENEFITS	4.0E-7	1.8E-6	2.3E-6
	(1.07)	(2.64)	(-2.58)
RESERVES	-0.00	1.0E-7	0.00
	(-0.73)	(1.90)	(1.96)
FRATIO	-0.13	0.06	n/a
	(-4.32)	(0.97)	
No of Observations	151	134	145

The decline in nominal rate of return as the funding ratio increases may be caused by the denominator effect as explained in Chapter Five, however, it may also suggest that there is less emphasis placed on maximising returns if the funding ratio is high. There may also be a higher incidence of government and private sector default on contributions and interest payments. There appears to be some evidence to confirm this in the OECS. In the early years when the funding ratio was high, as will be demonstrated in the next chapter, very few organisations had the investments of the portfolio as a priority. There were also little concerted efforts to get government and the private sector to honour obligations to the social security organisation. In more recent times, the investment of the portfolio is seen to be a big priority and the social security organisations are engaged in negotiations with government to reduce its obligations and are actively seeking redress from defaulting employers in the private sector.

6.5.7 Other Factors

In this category of explanatory variables, the variables included are the sex of the director, the political status of the country as captured by 'BRDEPEND', the age of the social security organisation and the transition method of the organisation towards the establishment of a social security system as measured by 'NPF.' This represents variable X_6 as presented in Chapter Five.

Tables 6.14
Results of The Other Factors Of The SSO In The OECS – Multivariate Analysis (t-values against a value of 0 are in brackets)

Variables	NRORML	RRORML	FRATIO
X_6 Other Factors			
FEMDIR	-0.63	-0.18	7.06
	(-1.11)	(-0.17)	(6.11)
BRDEPEND	1.91	1.84	-7.53
	(2.33)	(1.27)	(-4.49)
AGE	0.30	0.30	-0.94
	(3.87)	(2.18)	(-5.93)
NPF	1.29	2.86	-4.25
	(1.81)	(2.17)	(-2.93)
No of Observations	151	134	145
Adjusted R^2	8%	2%	29.1%

When regressed individually (Table 6.15), only two of the factors have some statistical significance (sex of the director and age of the organisation) and none is significant for all the dependent variables, however, when regressed in a multivariate analysis (Table 6.14) they all take on significance on one variable or the other, and some on the three dependent variables. If the executive director of the social security system is female, there is no statistically significant influence on the rate of return, but it is positive and significant with respect to the funding ratio.

This may suggest that female executive directors are more conscientious in controlling costs and in the management of contributions, and are more risk averse than male executive directors. However, it must be noted that in no case did a female executive director hold that position from inception of the organisation. In the case of British Virgin Islands, the executive director took office in 1990, in St. Kitts and

Nevis in 1995 and in St. Lucia in 1999. It may be argued that they found a good foundation on which to build. The executive director of the British Virgin Islands Social Security Board (BVISSB) when asked to comment on her success (that was during the fieldwork and before this analysis was conducted) acknowledged that the former director had "really laid the foundation for us to follow."

Tables 6.15
Results of The Other Factors Of The SSO In The OECS – Univariate Analysis (t-values against a null of 0 are in brackets)

Variables	NRORML	RRORML	FRATIO
X_6 Other Factors			
FEMDIR	-0.15	0.31	5.27
	(-0.27)	(0.31)	(4.26)
BRDEPEND	-0.14	-0.86	0.00
	(-0.28)	(-0.99)	(0.00)
AGE	0.16	0.11	-0.41
	(3.36)	(1.29)	(-3.70)
NPF	-0.50	1.04	1.64
	(-1.09)	(1.25)	(1.55)
STDEV	0.75	9.19	1.58
	(2.69)	(1.66)	(2.37)
STDDEV	0.31	0.52	0.36
	(1.77)	(0.12)	(0.81)
No of Observations	151	134	145

The political status of the country, the age and the transition from a provident fund to a social security system positively influence the rates of return and negatively impact on the funding ratio when regressed in a multivariate analysis. This may suggest that as the systems age and the transitioning measures introduced at the inception begin to take effect, it increases the level of benefits, which reduces the funding ratio. However as the funding ratio declines, steps are implemented to enhance the return on the investment portfolio.

It is surprising that the dependent territories political status, as measured by 'BRDEPEND,' has a negative influence on the funding ratio in the multivariate analysis. It was expected that at best, there would be less governmental influence in the dependent states and hence fewer restrictions, which would impact positively on the rates of return and the funding ratio, and at worst, the influence would be indeterminate.

The results suggest that the older the social security system the lower the funding ratio and the higher the rate of return. This may be explained by the fact that the older systems pay out more in benefit payments having more claims to pensions than the younger system, and the need to ensure that these obligations are met lead to great emphasis on enhancing the rates of return earned on their investments.

6.6 Conclusions

In this chapter the results from the quantitative analysis were presented. They showed that some factors appear to be more successful in terms of generating higher returns or maintaining more satisfactory funding ratios. The key factors, which appeared to be successful at generating higher returns were an investment committee made up of a greater number of non-board members, suggesting that the breadth of experience and expertise, as well as independence and autonomy in decision-making had positive value. The autonomy and independence needed to enhance investment decisions appear to be confirmed by the negative influence of the appointment of the board by the cabinet.

Autonomy, independence and expertise also appear to be important in generating and maintaining higher funding ratios, but many additional factors have a bearing on the sustainability of social security systems. These include accountability, transparency and partnership building signified by the positive influence of the cabinet appointment of the board and director, the director being appointed by the board, and the involvement of trade unions in the nominating and appointment process of the board, together with the negative influence on funding ratio resulting from the appointment of the board by the governor. It was argued that the lack of a reporting relationship to the governor by the board might be one factor accounting for the negative impact on the sustainability of the system. Diversification of the portfolio was also identified as a success factor as well as collectability of the returns earned on the investments. This suggests that careful analysis has to be carried out to ensure that the default risks are minimised.

These results indicate that persons appointed to the boards need to recognise the importance of their appointments and the fiduciary responsibility entrusted in them. It also suggest that those responsible for the appointments to the board have to ensure that the persons nominated and appointed are not only properly qualified but have the character and qualities needed to foster a climate of accountability, transparency and excellence.

Chapter Seven presents the findings from the interviews conducted with the social security stakeholders in the OECS. The trade unions, employers' bodies and a select group of employers as well as those on the board and management of the organisations will be presented. Links will be made wherever possible with the findings presented in Chapter Six.

CHAPTER SEVEN - THE VOICE OF THE STAKEHOLDERS

7.1 Introduction

The purpose of this chapter is to provide an understanding of the social, economic and political pressures that underpin the management of the social security organisations in the Organisation of The Eastern Caribbean States (OECS). It will also contextualise the results of the multivariate analysis presented in Chapter Six. The importance of governance is not just what it is but very importantly what it is perceived to be, so the perceptions of the social security stakeholders are relevant.

A straightforward analysis of the findings of the interviews will be presented, and while no statistical tests were performed on the responses, it is an important analysis because of the seniority and number of the respondents, and hence quality of the data. The respondents were senior persons involved either in the policy-making or the implementation of the social security systems in the OECS. It therefore gives voice to the stakeholders: the government, employers and workers. In this chapter, links will be identified with various themes presented in Chapters Two, Three, Four and Six.

The purpose of the interviews and the persons interviewed were presented in Chapter Five, but a brief recap of the categories and number of persons interviewed will now be presented. One hundred and eight-two persons were interviewed, including 9 social security directors, 21 board members, both past and present, 30 trade union representatives, 19 employers' associations representatives, 37-six employers and 11 insurance companies. Interviews were also conducted with management and staff of the social security organisations and their contributions will be utilised when the challenges facing the social security organisations (SSO) are discussed in section 7.7. The main findings from the insurance companies, as well as the findings in relation to private pension provisions by the stakeholders in the OECS were presented in Chapter Three and will not be repeated here. However, reference may be drawn to some of the findings.

By and large the social security stakeholders argue that social security is an important service and the social security organisations are fulfilling their mandate, though they identify new roles including the provision of medical coverage and unemployment benefits. Social security has played an important role in the economy, and while there is support for foreign investment and for the social security organisations to play a part in the development of the regional stock market, it was argued that proper analyses had to be undertaken to ensure that the primary responsibility of providing benefits, especially old age benefits were not jeopardised. The stakeholders shared a concern that the nomination and appointment processes of the board were too politicised and that government interfered in the operations of the organisation and directed investments into low-earning projects. They argued for a board that was independent of government made up of persons with the necessary qualifications and character and called for greater accountability to stakeholders. These recommendations for a more effective social security organisation are consistent with the findings of Chapter Six.

The results were analysed along three main themes and the chapter will be structured accordingly. The themes are (i) social security role, board representation and governance, (ii) redistribution and structural elements of social security and (iii) investments. Before the analysis of the themes a minor finding relating to the name of the organisations will be presented in section two. The themes will be presented in sections three to five, respectively. Section six will present an overall analysis with the findings from Chapter Six, and in section seven the challenges identified by the board, management and staff of the social security organisations will be presented. The conclusions of the chapter will be presented in section eight.

7.2 What Is In A Name?

The social security systems are either called "social security schemes," or "national insurance schemes." In the Caribbean, the word "scheme" has a very negative connotation and throughout the interviews in all of the islands, this negative connotation was brought up. One respondent declared: "I hate, hate that name. It conjures such negative images: scheme!"

This may have been one reason why there was so much opposition to the introduction of social security systems, and why there is still some resistance to the system, even after such a long time after its inception. Another respondent said, when the system was being introduced the acronym for "national insurance scheme (NIS) was spelt in the reverse to read, "SIN," signifying the opposition to the system. It may be an idea to re-name those institutions where the word "scheme" is included in the name, for a name is an important mechanism for conveying intentions and purpose.

Based on the interviews, it does not appear that there was such negative reaction to the introduction of the national provident funds and most of the negative reaction to the introduction of social security is the fact that persons thought that their money would be used for purposes other than for what it was intended: which is to provide protection in the event of various contingencies. At the inception of the social security systems many persons saw the social security contributions as a tax and another means of government to raise funds and were worried that government would use the funds without due consideration to its true purpose. This perception may have been formed based on the use made of the monies accumulated by the National Provident Funds (NPFs). In some of the countries, a significant amount of the monies were invested in government securities. One possible way of changing the negative perceptions of the stakeholders would be action by defaulting governments to clear their debt to the social security organisations. In the next section, the main findings of the interviews will be presented.

7.3 Role of Social Security, Board Representation And Governance

The aim was to identify what persons saw as the role of the social security systems, whether they knew of their representatives, the nomination process and feedback mechanisms in place. The questions 2 and 4 of the interview questions, relate to this section (Appendices 12 a, b, c).

7.3.1 The Role of Social Security

Everyone interviewed identified the role of the social security system as the provision of sickness, maternity, death and age benefit, and the vast majority of persons opined that the system fulfilled its mandate as specified (see Table 7.1). However, many felt that the systems needed to provide wider coverage of benefits to include in particular medical and unemployment coverage.

Table 7.1
Is the Social Security Organisation Fulfilling Its Mandate?

	Board	Directors	TUnions	EmpAssoc	Emplyers	TOT[22]
Yes	21	9	15	13	26	84
No			4		3	7
Partly			11	6	8	25
Total	21	9	30	19	37	116

In Chapter Three, the assertion was made that the Caribbean people were averse to unemployment coverage fearing it would encourage laziness, but this appears to be changing. The view expressed was that if people had contributed to the system for an extended period of time, they should still be entitled to benefits while they were in search of new employment. A few persons expressed the view that the social security organisations should consider establishing an organisation to assist in job creation and job placement.

7.3.2 Board Representation

Quite a few persons, particularly in Anguilla, the British Virgin Islands and Montserrat, were unaware that the board composition was legislated. In many instances, for example in Anguilla, the British Virgin Islands, Dominica, Montserrat and St. Kitts and St. Vincent, the board was nominated without the consultation with established trade unions and employers organisations. When this point was raised with the executive directors and the government ministers in the countries, reference was made to the legislation which in almost all cases, stipulates that the nominations are made after consultation with bodies of trade unions, employers organisations or *person* or *persons* (emphases added) whom the minister believes is representative of workers and employers on the island.

[22] Tunions = Trade Unions; EmpAssoc = Employers' Associations; Emplyers = Employers; TOT = Total

It is for this reason that it is argued that while the present nomination process follows the "letter of the law," it fails to honour the "spirit of the law." The "spirit of the law," requires consultation with the established trade unions and employers organisations to determine the persons best suited to represent workers and employers on the organisation. The results from Chapter Six, suggest that the involvement of the trade unions, and by extension the employers associations (since the two are highly positively correlated) in the nominating and appointing process are important elements in the sustainability of social security systems. However, there appears to be little consultation with the trade unions and employers' organisations in the appointment process (see Table 7.2). There is also little evidence of feedback and reporting mechanisms between the representatives on the board with the constituents whom they supposedly serve.

Table 7.2
Are You Involved in the Nomination Process of the Social Security board?

Board	Directors	TUnions	EmpAssoc	Emplyers	TOT
Yes		10	7		17
No	9	20	12	37	78
Total	9	30	19	37	95

Some trade unionists stated that they refuse to channel any requests or concerns via the appointed representatives as not only has there not been any attempt by these representatives to communicate with them, but also doing so would legitimise a process that they believe is improper.

It appears that some form of feedback takes place only in Grenada, where the trade union representatives present an annual report to the Grenada Trade Union Council (GTUC) and the employers' representatives to the Grenada Chamber of Commerce (GCC). A report by the employers' representatives on the board of the GNIS is usually included in the annual report produced by the GCC. However, there is little evidence that the information is fed back to the rank and file members of the various organisations that make up the GTUC. In the other countries, though the board members stated that they provided feedback to constituents, there was no evidence of a systematic process in doing so.

While the representatives of the trade unions and employers organisations voice concern over this lack of transparency and accountability, there appears to be only three instances of this concern being formally communicated to government: by the Dominica Employers Federation sometime in the late 1980s, the Anguilla Public Service Union in April of 2001 and the St. Lucia National Workers Union. With the exception of Grenada, there also appears to be lack of co-operation among the trade unions in the OECS, with none of them taking a joint position on issues, even if they agree that they are important. In St. Lucia, the government has provided funds for the establishment of a trade union congress, but this has not taken effect. The trade union congress is defunct in St. Vincent, and in Dominica even if there have been talks for the establishment of a TUC this has not materialised. In 1999, there were plans for the establishment of a TUC both in Antigua and Barbuda and Montserrat, but these too have not yet materialised.

There was a general consensus that the board nomination process was subject to political manipulations. The fact that in many cases the boards are usually changed when a government changes was often cited as evidence of this political manipulation. It was claimed that some of the persons appointed to the boards were not suitably qualified and were more interested in granting government wishes than in safeguarding the interests of the organisations. This view was also shared by some executive directors and one board chairman, though they acknowledged that persons chosen, irrespective of whether there was consultation or not, to represent workers and employers looked out for the interests of these groups.

Another piece of evidence cited to support the charge of politicisation is the termination of the appointments of the executive director. In some countries, Dominica, Grenada, St. Lucia and St. Kitts and Nevis, executive directors' contracts have not been renewed or have been terminated with a change of government. It is also interesting that in Grenada an entire board was terminated in 1999, because it was alleged that the government wanted the removal of the trade union representatives, but when the same names were submitted by the nominating organisations, the board remained largely unchanged.

The general consensus was that there needs to be more attention paid to ensure that persons appointed to the boards have not just the required qualifications but also the necessary qualities. Integrity was seen as a key component needed for appointment to the board. This view is in keeping with the arguments presented in Chapter Four, where it was argued that directors, inside as well as outside needed to be persons not only with the required expertise but very importantly persons with integrity. This appears to suggest that job descriptions should be developed for the board's positions and they should serve as a guide in the nomination and appointment of persons to the board.

7.3.3 The Role of The Social Partners

The unions and employers organisations, however accept the fact that they have not been as proactive as they should be and the trade unions in St. Lucia acknowledged that they have sometimes failed to participate when they have been invited to do so. It however appears that Grenada, the only country with a functioning TUC is the only one where there is "real" consultation with the trade unions and employers' bodies concerning the nomination and appointment of board members, though this does not appear to have lessened the charges of political manipulation against the government. It is also the only place where there is some form of systematic feedback to the other trade unions and to the nominating body of the employers' representatives.

In addition, many of the respondents stated that the request for the interview was the first time that they had given thought to social security. This in itself speaks volumes and it signifies two things, viz. (1) social security has become so much part of the fabric of life in the OECS that it is taken for granted, and (2) that though social security is the largest mobiliser of savings and will account for the bulk of income in retirement for a significant portion of the population, there is a general sense of apathy towards it. The social partners have to recognise that part of the reason for what they perceive as a lack of transparency, accountability and politicisation is a result of this indifference on their part. Organisations are more wont to be transparent and accountable if the people whom they serve demand it.

However, the trade unions and employers' organisation argue that they have a meaningful part to play in the management of the social security organisation. They argue that their participation on the board would add to the breadth and depth of experience, as they would bring in not only different skills and expertise but also the perspective of the workers and employers to bear on the decisions. The trade unions also see their involvement as a means of effecting compliance to social security, as they would be able to reach their members more effectively. The Dominica Trade Union asserts that it was instrumental in getting the members of the Hucksters Association to become members of the Dominica Social Security. The trade unions also argue that they could play a major role in obtaining compliance by employers. It is argued that this is a role that the trade unions should play, even without being represented on the board, for the compliance of employers is in the best interest of the workers, whom they represent.

The findings from Chapter Six appears to suggest that there is some validity to these claims for they showed that the involvement of a higher percentage of outsiders on the investment committee resulted in higher returns and that the involvement of the trade unions (a proxy for plan participants) leads to a higher funding ratio, which indicates a greater level of overall managerial efficiency. This is consistent with the theme in the corporate governance literature, which points to the strength and value of the outside directors (Kesner & Johnson, 1990, Knepper, 1978; Pfeffer, 1976; Pfeffer & Salancik, 1978, Weisbach, 1990).

They also assert that their presence on the board would serve to provide the social security organisations with greater autonomy from the dictates of government. The evidence however does not support this claim, for in the three countries where the trade unions are involved in the nomination process, namely Antigua & Barbuda, Grenada and St. Lucia government owes millions of dollars in contribution and interest payments. They also acknowledge that they have a part to play in sensitising their membership and the public to the benefits of social security and in preparing for retirement.

7.4 Redistribution and the Structural Elements of the Social Security Organisations

This section is concerned with the stakeholders' position in terms of the contributions and the future of the social security system. The answers to this section are derived from questions 3 and 9-11 of the interview questions. The results are provided in Tables 7.3 and 7.4.

7.4.1 Contribution: Tax/Burden Or Benefit?

The question relating to the contributions being viewed as a tax or benefit was not posed to the board members. The results in Table 7.3 indicate that by and large the social security contribution is not seen as a tax or a burden, but rather as a benefit to both workers and employers.

Table 7.3
Is The Social Security Contributions A Tax/Burden?

	Board	Directors	TUnions	EmpAssoc	Employers	TOT
Yes			8	2	2	12
No			17	17	35	69
Unsure			5			5
Mixed		9				9
Total		9	30	19	37	95

The executive directors posited that the reaction to the contributions was mixed, with the younger workers seeing it as a tax and burden, while the older workers and those already in retirement see it as a benefit. Workers sometimes argued that the benefits were inadequate, however, the payment of the contributions to the system was seen as "a matter of course," and a means of providing them with protection against various contingencies. The employers' organisations and most of the employers interviewed did not see the contribution as a burden or impairing their competitiveness. They argued that since every company was obliged to pay the contributions, there was no competitive edge in the local economy. In fact, they saw the contributions as a benefit not just to the employees but also to themselves. The provision of social security benefits, especially old age pension, has removed the pressing need to provide private pension provisions. Some organisations, actually disbanded their pension system with the introduction of social security system, while others modified the contributions to existing private plans to the difference between original contributions and social security contributions. However, as discussed in Chapter Three, companies are now reinstating or introducing pensions to provide some complementary coverage to that provided by the social security organisation.

The smaller companies, especially those in the informal sector, however, view the social security contributions not so much as a burden but affecting their ability to compete as some of the other small companies do not comply. They claim that some companies contract out work to avoid paying social security on behalf of workers, and in an open bid, a company that does not pay social security will have a cost advantage. The social security organisations have recognised this problem, and this was one of the motivations in some islands to extend compulsory coverage to the self-employed.

While, persons generally accepted the payment of their contributions and some self-employed persons expressed a willingness to pay increased contributions for a more comprehensive coverage of benefits, there was some resistance expressed to an increased of contributions, especially among small businesses. The resistance centred on the perception that the organisations "have a lot of money," and so there is no need to increase contributions, and the lack of consultation before the introduction of new measures.

The only increase in the contribution rate has been an increase in the employers' contribution level with the introduction of employment-injury coverage. The increases to contribution income have been derived mainly from the increases in the contribution ceiling (refer to Table 3.5). There are some misconceptions relating to the increases in the contribution ceiling, for one trade unionist in Anguilla noted that "it seems that every time we get an increase, two days later, you hear that the ceiling has been increased." This indicates a lack of understanding of the relationship between the contribution ceiling and the pension received. The higher the contribution ceiling, the closer would be the actual pension to the average wage earned by the employee, and while this entails a higher contribution, it also means a higher pension payable by the social security organisation.

It is also evidence of the failing of the public relations efforts and in all of the SSO communication was noted as one of the shortcomings. In St. Kitts and Nevis, the contribution-ceiling was recently increased, yet many of the employers claimed that there was no consultation or communication before the implementation day. In Grenada, employment injury benefit was implemented in January 2000 and employers also claimed that they were not informed prior to the introduction. This also indicates a failure on the part of the employers' representatives to communicate to their constituents.

7.4.2 Evasion And "Free Riding"

Some self-employed persons who were delinquent in paying argued that their resistance was not resentment of the contributions paid, but of the inadequacy of the coverage provided. Most of them argued that the exclusion of unemployment injury coverage of the employment injury means that they must pay an extra premium for private insurance to get that protection. In some countries, the self-employed are only entitled to long-term benefits and this also lessens the attraction for compliance. Some of the self-employed persons have even expressed a desire to pay a higher contribution to benefit from employment injury benefit. The British Virgin Island Social Security Board (BVISSB) is the only one providing the self-employed with employment injury benefits. The other social security organisations do not provide the benefit because they fear that it will be open to abuse. This sparks of an element of distrust, which is not lost on the self-employed, for as one self-employed taxi-driver in St. Kitts noted, "this is discriminatory...if I am too much risk for them, then they too, are too much risk for me." The management of the BVISSB reports that there has not been an abuse of the system by the self-employed. The key to success in the management of this benefit, as in all other benefits, is effective monitoring of the benefits, ensuring that benefits are paid when it is due in the right amounts.

Some also said their delinquency was as a result of poor financial management, which resulted in high and delinquent debtors. These findings appear to contradict the position of those who argue that evasion is caused by high contribution rates (World

Bank, 1994, James, 1997). However, evasion for whatever reason has to be tackled for it leads to the "free-rider" problem, which compromises the integrity of the system and places an undue burden on those who contribute.

7.4.3 To Privatise Or Not?

Notwithstanding the charges of politicisation, lack of communication and transparency levelled at the social security organisations, all the stakeholders interviewed agreed that social security was important, played a crucial role in society and would be even more relevant to the future. The stakeholders argue that if social security were privatised, the emphasis would be on profit at all costs and persons most in need of protection would be uncovered. One board member in Antigua claimed that having visited Chile and Peru, the purported benefits of the privatised system have not been realised and that "the people are in a terrible state."

Many also point to the poor experience of privatisation in the Caribbean. Given the mis-selling pension crisis in the UK, as was outlined in Chapter Two this reservation of privatisation may be well placed. It was in light of this, that privatisation was not seen as an option for the social security organisations in the OECS (Table 7.4).

Table 7.4
Should Social Security Be Privatised?

	Board Directors		TUnions	EmpAssoc	Employers	TOT
Yes			1	3	2	6
No	21	9	29	15	35	109
Undecided				1		1
Total	21	9	30	19	37	116

It was also argued that government would not privatise the social security system, and thereby deprive itself of a ready supply of cash and the opportunity to exercise political patronage. It is not difficult to understand the resistance to privatisation of the social security system by most of the stakeholders. The trade unionists are fundamentally opposed to privatisation seeing it as promoting capital against labour. The governments, especially those who are in arrears, would also not favour privatisation as they would lose control over the Board's appointment process, as well as the ability to direct the investments into specific project. Private companies may also be less tolerant of government's huge debt (it is however argued that these conditions can exist in a publicly managed organisation if those in charge of its management have the integrity and courage to demand autonomy and accountability).

The social security management and staff may oppose privatisation for fear of job losses. Two groupings of people may be expected to be in favour of privatisation – governments who are in "good standing" with respect to contributions and interest payments and employers/employers representatives – yet there is a widespread opposition to the idea.. The reasons for opposing privatisation were consistent throughout, as it was argued that social security was a responsibility of the State to ensure that there was at least minimum pension coverage for workers. One employer argued that the main reason for those advocating privatisation was to "get their hands on the 'juicy' funds of social security," but social security should never be privatised. He however argued that in ideal world, there should also be private pension plans to complement the pension provided by the State. The insurance companies, on the other hand were all in favour of privatisation and some stated that they would welcome such a decision as they have the infrastructure in place to manage the pensions for contributors. They did not see the social security organisations as competitors as they argued that they provided a better, more efficient service and opined that social security only had the advantage because it was mandatory.

By and large, the stakeholders believed that the organisations were well managed and that the current structure of the social security organisations as a statutory body afforded the autonomy to manage in the best interest of the organisation, while at the same time giving government an oversight function. They argued that the structure was in place and all that was needed to make it work were a board and management team with autonomy, integrity and professional capabilities.

7.4.4 Future Role For Social Security

Everyone interviewed saw a future role for social security. Many advanced that there would be an even more urgent need for social security to provide income and other social protection as the economy becomes more globalised. It was argued that social security had to become more proactive in meeting the needs of members. There was a growing stance, though not shared by everyone, including some board members, that in addition to unemployment benefits, the social security systems should provide a non-contributory pension system for those who for whatever reason were unable to or did not contribute and were in need. Some of the other areas, which were identified as areas for expansion, included the provision of medical and health insurance, the inclusion of all categories of workers and the re-examination of the eligibility criteria for the seasonal workers, especially those in the construction industry.

These findings clearly demonstrate that persons in the OECS believe in redistribution and do not see contributions to the social security systems as overly burdensome.

This is consistent with the arguments made by Barr (1987) and Kingson and Williamson (1998) that a society's attitude towards social security is dependent on its sense of social justice and value system. It is also consistent with the view that the provision of social security is a basic human right, which fosters social cohesion (Beattie, 2000 & Scholz et al, 2000).

7.5 Investments

The section refers to questions relating to the investments of the portfolio and to perceptions on the role of the social security system in economic development and capital market development. The questions relating to this section are questions 5 – 7. The results are presented in Tables 7.5, 7.6 and 7.7.

7.5.1 Role In Economic Development

All stakeholders opined that social security had played and is playing a major role in economic development, and all, with the exception of one person foresaw a future role in that area. The one person who was undecided about the future role for social security in economic development argued that it would be acceptable if government were not directly involved in the decision-making process. There were however, some reservations, that notwithstanding the recognition of a role in economic development that this was a secondary role to the primary role of preserving the capital accumulated and safeguarding contributors' interests.

It was argued that if the social security organisations invested in job-creating activities, this would benefit the system, as it would ensure a steady supply of workers to help sustain the system. This position would find support with the World Bank

(1994) who argued that social security systems had to facilitate growth, but not with Thompson (1998) who argues that there are other mechanisms by which government can achieve growth and that the main function of the system was the provision of benefits.

Table 7.5
Is There A Role For The Social Security Organisation in Economic Development?

	Board	Directors	TUnions	EmpAssoc	Employers	TOT
Yes	21	9	29	19	37	**115**
No						
U sure			1			**1**
Total	**21**	**9**	**30**	**19**	**37**	**116**

The three most cited areas for investment and development were housing, education and medical benefits in that order. Housing is seen as a key activity in which the social security can engage. This was particularly so in Montserrat, where many persons lost their homes due to the volcanic crisis on the island. The Eastern Caribbean Central Bank (ECCB) has, however, advised the social security organisations to refrain from investing in the housing market. This advice seems to have gone unheeded for a number of the social security organisations, Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis have invested in housing, though not always directly.

Education was seen as another important area as it is believed that by upgrading the skills base of the country and investing in the region's main resource, this would help spur growth. Medical coverage was seen as also crucial, for as one of the Hotel and Tourism's executive director noted, sickness and death of loved ones are largely responsible for poverty in the Caribbean. This may explain why many of the companies offer medical coverage to employees. Other areas identified were investment in sports and youth activities; investment in activities geared towards the retired persons ranging from provision of seed capital for a new career to provision of a recreational centre for the retired.

7.5.2 Role In Capital Market Development Of The OECS

There was also support for the development of the OECS regional stock market that is being spearheaded by the ECCB (see Table 7.6). Those who supported the initiative argued that the establishment of a functioning regional market would provide the opportunity for greater diversification of the portfolio within the region. Those who rejected the idea or were undecided argued that until the stock exchange was running efficiently, then the funds should not be risked, while others argued that this was just no role for a social security organisation. The social security main function was the protection of "poor people's money."

Table 7.6
Is There A Role For The Social Security Organisation In The Capital Market Development In The Caribbean?

	Board	Directors	TUnions	EmpAssoc	Employers	TOT
Yes	16	5	13	7	19	60
No	3	3	6	4	5	21
Unsure	2	1	11	8	13	35
Total	21	9	30	19	37	116

There is a preoccupation in the OECS with the protection of "poor people's money," and this theme recurs and is echoed by the ministers, executive directors, board members, employees and employers' representatives and employers. It is a curious moniker given that social security is all contributors' money, the poor as well as the rich. This may explain in part, that notwithstanding the lack of transparency and accountability in the management of the social security organisation and the lack of activism on the part of stakeholders, the organisations are relatively well managed. As one minister remarked, "people are very sensitive of government using social security funds and that is good as it keeps government, the minister and everybody in check."

7.5.3 Foreign Investment of The Social Security Funds

Everyone who supported the role for the social security organisations in capital market development of the OECS, supported investments in the foreign market, but not everyone who supported a role for foreign investment supported a role in capital market development (see Table 7.7). This may because investing in a more established stock exchange may be deemed safer than in a newly developed one, albeit a regional one.

Table 7.7
Is There A Role for Foreign Investment in the Investment Portfolio?

	Board	Directors	TUnions	EmpAssoc	Employers	TOT
Yes	16	9	21	14	24	84
No	4		3	3	3	13
Unsure	1		6	2	10	19
Total	**21**	**9**	**30**	**19**	**37**	**116**

Foreign investment was deemed to be necessary to diversify and enhance the returns on the portfolio. Caveats, were however raised and included the need to ensure that if external managers were used they were reputable, that proper analysis of all investment decisions were undertaken, and that training of in-house staff to develop expertise and competencies and effective monitoring of the decisions and managers were put in place.

The consensus was clear that foreign investment, while beneficial must not be to the detriment of the local economy. Those who objected argued that the monies collected locally had to be invested locally and that there were sufficient local opportunities to provide adequate returns. The results from the regressions, while showing that foreign investments have no statistically significant impact on the rate of return earned on the investment portfolio, positively impacts on the funding ratio. This thereby suggests that those who see foreign investment as beneficial to the overall viability of the system may be correct. In the next section, the overall analysis with a link wherever possible to Chapter Six will be presented.

7.6 Overall Analysis of Interview Findings

From the interviews, the social security stakeholders in the OECS posited that some of the elements of success for social security organisations are a tripartite board with the relevant training and expertise, a board accountable to stakeholders, autonomy from government in the management of the organisations, a diversified portfolio and government to perform the role as regulator.

These elements appear to be consistent with the results of the multivariate analysis discussed in Chapter Six, from which at least six elements of success for social security organisations were identified. They are accountability; professionalism/knowledge/expertise; transparency, independence/autonomy; working in partnerships; a recognition and acceptance of a fiduciary responsibility to stakeholders; and the diversification of the investment portfolio.

The stakeholders argue that the social security organisations had a part to play in economic development, albeit a secondary role, and argued that this could be done without jeopardising their viability. The results of the multivariate analysis are also consistent with this finding as it showed that there was no statistical significance of investment in national economic projects and performance. This appears to support the position of Mounbaga (1995) and Theodore and La Foucade (1999) who argue that for microstates, one of the functions of the social security organisations has to be social utility and economic development.

There does not appear to be any significant differences in the positions taken by the different groups of stakeholders, except in some areas between employers in the formal sector and those in the informal sector. There appears to be strong support for social security by both workers and employers. Three areas where there is some differences in position relate to the fulfilment of the mandate, charges of politicisation and contributions.

Generally, the social security system is seen as fulfilling its mandate, however, the trade unions, more than any other grouping holds it does so only partially. They call for increased coverage of benefits to include unemployment, medical insurance and increased benefits. It is to be noted, however, that the employers' associations and employers also called for increased benefits and expanded coverage.

Though all sides acknowledged some level of politicisation of the process, the trade unions, especially in Dominica and Grenada, the employers' associations in Dominica and Grenada, and employers in Antigua & Barbuda and Dominica, asserted that there was too much political involvement. In these countries, government is the largest delinquent in terms of both contributions due and interest payments and there is also a significant holding of government bonds and/or loans to statutory bodies. In Dominica and Grenada, there have also been frequent turnover of boards and directors in the past five or so years. In fact one of the trade union leaders in Grenada declared that he might bring a lawsuit against the government, the board and executive director of the social security organisation for politicisation of the National Insurance Scheme. However, in most cases, the minister, the board and the executive directors of the organisation denied this charge.

Contributions are seen as a benefit rather than a tax, and while some trade unions state that some of their members would rather not pay the contribution, all of the employers' organisations stated that their members saw the contributions as a benefit to employees and some saw it also as a benefit to their companies. There was also a link between the trade unions who see the nomination process as being politicised and those who view the contribution of social security as a tax rather than a benefit and in social security not fulfilling its mandate. The opinion of the employers' associations with regard to contributions appeared to be confirmed by the interviews with employers when the majority of those interviewed voiced the same sentiments, that the contributions did not impair their competitiveness. Most of the companies interviewed operated only within the domestic economy, however, the companies, which operated on an international level also, stated that the contributions to social security did not impair their international competitiveness. This appears to be a differentiating feature of the OECS when compared with the industrialised countries, where it is often argued that social security contributions impair international competitiveness because of higher labour costs (ISSA, 1996).

The evidence on the social security contributions impairing international competitiveness is itself not clear and some see social security being used as just another scapegoat in the arguments against imposing further taxes on employers. In addition, the report of the ILO Director General to its European Regional Conference in 1995 noted, "some countries with high social charges are competitive (Germany); some with low social charges have become less competitive (United Kingdom); others with low social charges are competitive (Japan) and still others with high social charges are uncompetitive (Norway)," (ISSA, 1995). This argument, like the funded/pay-as-you-go debate will depend on a society's value system.

Some of the smaller companies, however, saw the contribution as a burden and impairing their competitiveness if compliance was not enforced. It should be noted that it was not the contributions per se, but the "free rider" problem, caused by the inability of the social security organisations to ensure effective compliance by the self-employed and companies in the informal sector that was identified as the main problem. This suggests the need for the social security organisations to enhance their compliance mechanisms, especially in the informal sector. Section 7.7.1 presents evidence that efforts are being expended in this area.

The self-employed also argued that the coverage provided by social security for them was inadequate due to the limited number of contingencies for which they were covered and the eligibility criteria for claiming benefits. This seems to suggest that this grouping of employers should be represented separately on the board, as many do not belong to the more recognised employers' associations, from where board nominations are sometimes derived. This may suggest that a multipartite board rather than a tripartite board is what is required in the OECS.

There appears to be a reversal of the trend with regards to private pension. In some countries, example Grenada, there appears to have been private pension arrangements prior to the introduction of the social security systems, and the trade unions fought hard to ensure that the plans, though modified and scaled down were not abandoned. In some other countries, example St. Kitts and Nevis, some of the private plans were disbanded with the introduction of social security. Today, there appears to be resurgence in the introduction of private plans.

Two reasons were provided for the trend towards private pension funds: one is the recognition by the trade unions that the social security is only one component in the plan for retirement and the other a recognition by the employers that their workers should be able to maintain a similar if not the same lifestyle in retirement enjoyed during their working life. This is again seen as a differentiating feature of the employers in the OECS.

Yet interestingly or ironically, while there is this new impetus to provide private pensions, little work is done in assisting workers to plan for retirement. From the interviews conducted, only six out of the thirty trade unions, one of the nineteen employers' association and two of the thirty-seven employers interviewed provided retirement planning seminars to their employees. At the time of the interview, none of the social security organisations had conducted a retirement planning seminar for members, though plans were well on the way by the St. Vincent and the Grenadines National Insurance Scheme for the hosting of its first ever retirement planning seminar for members.

It was generally believed that while social security will form the main source of income in retirement for a significant proportion of the population in the OECS, many people continue to make alternative arrangements for retirement. Social security is not seen to reduce the incentive to save by members. The findings of St. Rose (1982) which showed an increase in savings after the introduction of social security systems appears to confirm this belief.

Social security was seen by all those interviewed as an important organisation and many asserted that the decision to introduce the system was the single most important decision in the history of the OECS. The social security system is seen as being more relevant for the future and many argued that if the systems are well managed, and many believe they are, the systems will be able to cope with the challenges, including that of demography facing the industry. Privatisation was not seen as an option for the social security system in the OECS.

The board, management and staff of the social security systems were asked to identify the challenges facing their organisation and to outline their plans for managing those challenges. These will be presented in the next section.

7.7 The Challenges Facing the Social Security Systems in the OECS

The challenges identified by the social security organisations during the interviews are presented in Table 7.8. This table has been compiled not only from responses of the executive directors, but also includes the responses of board members, the minister, management and the staff of the respective organisations.

Table 7.8
Challenges and Issues Identified by the Social Security Organisations in the OECS in 2001

Country	2001
Anguilla	Delivery of first class service, computerisation, becoming a customer-driven, knowledge-based, future-oriented organisation, balancing the need for portfolio diversification and the role in economic development.
Antigua & Barbuda	Investments, compliance and evasion, government's default and arrears, education and sensitisation of the public, communication within the organisation, legislative review, demographic factors, globalisation and trade liberalisation.
British Virgin Islands	IT system, investments, education of the public, mobility of the population, compliance
Dominica	Compliance, proactive investing, proper management, increased public confidence, demographic impact, networking with regional social security organisations, economic situation
Grenada	Investments, compliance, communication within the organisation, the board, education of the public, greater transparency, strengthening of the legislation.
Montserrat	Computerisation, education of the public, review of contribution level, demographic factors, economic climate, board's structure.
St. Kitts & Nevis	Investments, compliance, greater managerial autonomy, breaking culture of complacency, public awareness, costs control, reduction in claim turnaround.
St. Lucia	Compliance, OECS and CARICOM Reciprocal Agreements, bring up staff levels of training and technology, providing support for NIPRO, brokering a deal with the UK Social Security Department on behalf of pensioners from the system residing in St. Lucia with regards to inflation adjusted benefits
St. Vincent & The Grenadines	Reframing of investment guidelines, AIDS, inclusion of the community, information sharing with regional social security organisations, reaching the informal sector

These challenges include, in some countries, issues not only relating to the delivery of service but to the management structure of the organisation. The main challenges include compliance, investments and education and sensitisation of the public. In some organisations, in addition to these challenges, more direct challenges were identified relating to the management style of the organisation.

In those organisations, problems with internal communication were seen to be huge and this in turn affected the morale of staff. In some of those organisations, it was asserted that there seems to be little managerial autonomy, with the board playing too big a role in the day-to-day operations. It should be noted that where this was brought to the attention of management, this was denied, though one executive director asserted that the minister was too involved in the day-to-day operations. The ministers interviewed claimed that they do not get involved in the day-to-day operations but argued that when their constituents brought matters to their attention, they had a responsibility to seek answers.

In the pilot study in 1999, all the executive directors also identified evasion as a challenge. The other challenges identified were the growth of the informal sector, the need for greater diversification of the portfolio, control of administrative expenses and health and demographic issues. In 2001, control of administrative expenses, though rising, has not been identified as a challenge and health and demographic issues have declined in significance. Compliance and investments remain priority areas for the organisations. In 1991, some of the social security organisations identified their challenges in a survey conducted on behalf of the International Social Security Association (ISSA). This will be reproduced in Table 7.9.

Table 7.9
Challenges, Issues or Problems Faced by the OECS Social Security Organisations[23] in 1991

Country	1991
Anguilla	Increased benefits rates, introduction of EIB[24], introduction of SEB[25], public relations section, printing of social security handbooks
Antigua	n/a
British Virgin Islands	Strengthen legislation, especially with regards to compliance, proper staff training at all levels, the changing needs of the community, thus the continual need for review and changes
Dominica	Computerisation of all operations, qualified managerial staff, public relations and information, increases in benefits, improved office accommodation
Grenada	Staff training at all levels, public information & education, proper reporting by public sector, expertise in computerisation, expanding coverage of services
Montserrat	n/a
St. Kitts & Nevis	Processing short-term benefit within 48 hours, collection of contribution arrears, protection of self-employed persons, reciprocal agreements with other countries, issuing laminated photo identification
St. Lucia	Making the system of National Insurance more acceptable to its clients (reduce their hostility), providing health care for contributors, reciprocal agreements, play a more visible role in the country's development, ensuring that all contributions due and payable, and all returns, are collected, the finances are kept in a way that it will always be able to meet all commitments
St. Vincent & The Grenadines	- n/a

Source: Tamagno, 1992

In 1991, the social security organisations were mainly interested in expanding coverage both in terms of new benefits and new sector of workers, public education/awareness, computerisation and staff training. Ten years on, public

[23] The answer to the survey in 1991 by the ISSA may have been completed solely by the director, for the challenges identified in 2001; the answers come from the director as well as staff in the organisations.
[24] EIB = Employment Injury Branch
[25] SEB = Self Employed Branch

education and sensitisation still remain key issues but the focus has shifted to the management of the investments and compliance. In 1991, only two of the six organisations (33.3%) listed compliance as a challenge and none mentioned investments. In 2001, compliance, evasion and investments were issues for seven of the nine organisations (78%).

The challenge for investments was multifaceted. The organisations recognised that they had a role to play in economic development but also recognised the need to diversify the portfolio and enhance returns. However, they also acknowledged the constraints of an undeveloped financial local system. As one executive director pointed out, "I often ask myself why are we investing in the US market and not in our local economy, but the opportunities just do not exist locally." While the management recognises the need for diversification and even investing internationally, they often face tremendous constraints.

There is, as discussed in Chapter Five, resistance by the government and the ECCB to investments in the foreign market, even if they are well aware of the local limitations. There is also evidence of a growing awareness by management of the fiduciary responsibilities entrusted in them and this tends to accentuate the problems encountered with managing the investments.

The issue of compliance is also a burning one, and it includes not only compliance by the private sector, but also by the government and the self-employed. In many of the countries, it has recently been made mandatory for the self-employed to contribute and there is still an uphill battle in getting full compliance. The self-employed sector poses several problems, the key one being the identification of those persons. From the interviews three reasons were identified for the non-compliance of some in the informal sector, (i) the inadequacy of coverage (ii) the ineffectiveness of compliance mechanisms by the social security organisations which enable some to evade and thereby gain a cost advantage when tendering for bids and (iii) cash flow management problems. Social security organisations have to be more vigilant and more proactive in obtaining compliance not just from the self-employed but the employers in the formal sector.

Two of the social security organisations, Antigua & Barbuda and St. Lucia, are moving towards forensic audit and the aim is not only to improve compliance but also to ensure that the amounts reported and paid are accurate. The system has already been implemented in St. Lucia and is in the advanced stages of planning in Antigua & Barbuda. The social security organisations must also bear some of the responsibility for the evasions and poor compliance by the employers, as they have not been proactive in the management of the accounts and in effective follow-up. Some of the measures introduced to manage the situation include the publication of defaulting employers in the local newspapers and the creation of payment plans whereby the defaulter employer pays the current contributions and payment of the arrears over a period of time. Defaulters have also been brought before the Courts and where the Law permits, example in Antigua, assets have been impounded and businesses closed down.

The management of the social security organisations however, recognises that closing down businesses is a measure of last resort for this not only increases unemployment but also reduces their contribution base. The government is the worst defaulter, in many of the cases, as was presented in Chapter Three, yet no court action has been brought against any government. The issue of government's delinquency will be dealt with in more detail in section 7.7.2.

Demographic issues have also been identified as a key challenge, not only in the sense of the growing retired population, but also the impact of AIDS and in the case of the British Virgin Island, the high mobility of the population. There are a large number of transient workers in the BVI. The reciprocal agreements signed by the OECS and CARICOM countries are also challenges and will necessitate social security organisations becoming fully cognisant with the legislation. They will also need to ensure that they have compatible computer systems and that there is increased dialogue among and between them. This dialogue should centre not just on the legislation, but perhaps the time has come for greater and wider co-operation and networking among the social security organisations in the OECS so that they can learn from each other and provide benchmarks for performance. This has been recognised by some of the directors and managerial staff in Dominica and St. Vincent and the Grenadines as a way forward for the social security organisations in the Caribbean.

A few years ago (around 1998) the idea of joint investing of the investment portfolio of the SSO in the OECS was submitted by the ECCB, but this does not appear to have borne any fruit. In fact, the idea of joint investing of the portfolio first made the rounds in the 1970's when the ILO/UNDP Caribbean Office proposed the establishment of a Social Security Fund Investment Committee to be set up by Inter-

Governmental Agreement among the Eastern Caribbean Common Market (the forerunner to the OECS) member territories. The terms of reference of the Committee were never fully developed but it was to invest generally the surplus funds of the individual social security organisations (Joseph, 1975). The idea was seriously considered and applauded for its originality (Joseph, 1975), but it never took effect.

Education and sensitisation of the public as well as delivering quality service and becoming a more transparent organisations have also been identified as challenges but these and the other challenges identified can be effectively managed only if the management and staff are trained, committed and have the resources to deliver. Yet in five of the nine social security organisations (56%) the need for effective management both at the board and managerial levels, training and greater communication within the organisation have been identified as challenges. The management of the organisation as well as the calibre of staff employed then become the lynchpin in the success of the social security organisations and in them fulfilling their mandate and being relevant to the needs of current and future members.

Management is cognisant that in order to deliver the quality service that is being demanded and will be demanded in the future that staff must not only have the right training and skills but must also have an attitude and willingness to serve. In keeping with this commitment the training budgets of the social security organisations have increased over the years and all the organisations have a training policy, which refunds employees in full or partially for undertaking educational programs. Please refer to Appendix 14 for the expenditure on staff training from 1990 - 1999.

At the same time, staff argues that for the institution to remain viable and deliver its promises to contributors, the board and management must provide effective leadership and guidance. Some staff and executive directors question the selection process of the board members and assert that the board needs to be more proactive and that the minister should ensure that the persons appointed to the board have the necessary expertise. Some of the board chairmen also expressed concern over the board's appointment process and contend that government will have to review their policy of board member selection and choose people with not only technical expertise but persons with integrity and honesty.

Some staff members also argued that management too had to take a more a proactive stance and had to establish the boundaries between the board, charged with policy making and the director charged with the day-to-day management of the organisation. In Antigua & Barbuda and St. Kitts & Nevis, staff was particularly concerned about the organisational culture and called for greater communication within the organisation and for a change from a culture of complacency to one of action and service. Some of the organisations, for example the ones in Dominica, Grenada, St. Kitts and Nevis and St. Vincent and the Grenadines, have conducted strategic reviews of their operations with a view to enhancing the efficiency and effectiveness of operations and to foster a culture of excellence. Some of the organisations, example Grenada and St. Vincent and the Grenadines, have also conducted a human audit to not only better place employees but also towards identification of key areas in need of strengthening as they prepare for the challenges ahead.

A more in-depth analysis will be presented below of two of the challenges, namely, compliance and evasion and the education and sensitisation of the public. A discussion on the management of the investment portfolio was presented in Chapter Five.

7.7.1 Compliance and Evasion

The majority of the income of social security organisations in the OECS comes from contribution income. Employers and employees, in many cases in equal proportion, pay the contribution, though where employment injury is offered as a benefit; employers contribute between one-half to two percent (1/2% - 2%) more. In the early years of operation, contribution income tended to rise steadily, but the rate of increase is expected to decline gradually. The actuaries for the individual organisations anticipate that all things being equal, the organisations will reach maturity, that is the stage where contribution income equals expenses, between 2008 – 2012. In Dominica, this has already happened as total expenses have already exceeded contribution income.

Arguably, the decline in the growth of contribution income is due to not only the increasing dependency ratio, but more so the increasing rate of evasion and delinquency in the countries. There is a fairly big informal sector as demonstrated in Chapter Three and this makes it difficult to monitor and collect the contributions, even if it is now mandatory in most of the countries for all employed persons, self-employed included, to contribute to the social security system. In addition, there is a huge delinquency rate, not only by the private sector, but also more importantly by the government.

7.7.1.1 Government's Arrears

In some of the countries, Antigua and Barbuda, Dominica, Grenada and St. Lucia, government is the biggest delinquent, and this also gives rise to a form of the "free rider" problem, and it means that government is not only engaging in "forced borrowings," but this also distorts the return earned on the investments. As explained in Chapter Five, because interest income is accounted for on an accrual basis, it overstates the rate of return earned on government investments. Though government does not pay in the contributions, the social security organisations must honour claims made by government employees on the system as their contributions have been deducted though not remitted to the social security organisations. This puts serious financial pressure on the system and also reduces the system moral authority to enforce compliance by the private sector. As mentioned earlier, one possible way to change the negative perceptions of the stakeholders in the OECS is the implementation of good governance principles which include the payment by governments of its debt to the SSO.

In Grenada, in 1992, the board took a decision that it would not prosecute any defaulters in the private sector unless government made good on their arrears. In an interview with the former chairman of that board, he argued that he found it morally wrong to prosecute someone who owed a few thousand dollars while government owed millions. This served to apply some pressure on the government and the government came to an agreement whereby lands were offered in part payment of the arrears and the balance in cash (Grenada National Insurance Scheme Annual Report, 1993, Interviews). The government is however reported to have relapsed back into delinquency.

The exchange of land in payment of arrears of both contribution and interest payment is a common feature in the OECS. This has also been done in Antigua, Dominica, and St. Lucia. While this reduces the obligation, it is in fact exchanging a liquid asset for a non-liquid one. In many cases, years after the land has been assigned, it continues to lie idle, thus yielding no return to the organisation. In some cases government wants to prescribe the use of the property.

In his 2000 Budget Address, the Minister of Finance of the Government of Dominica recognised the government's indebtedness to the social security organisation and outlined two options in reducing the indebtedness. One was conversion of the debt to a suitable long-term instrument with amortisation over 20 to 30 years. The second was the transfer of landholdings to the organisation "under specific conditions which could include a commitment to use such property for the advancement of a viable investment programme that is consistent with Government's development objectives." He outlined hotel/resort development; export oriented non-banana agriculture or housing as some areas for investment.

An analysis of the two options will show that the first in no way reduces government debt, nor does it address government's non-payment as this instrument could itself become non-performing and does nothing to improve the cash flow position of the organisation. The second reduces government's debt and has the potential of return, though it is not very liquid. However, the use of the property should be a prerogative of the board, not the Government. This hints at the role of government as regulator, policy-maker and executor in its relationship with the social security organisations, as was identified in Chapter Four. It is however, noteworthy, that no government has been prosecuted for defaulting, notwithstanding the fact that the Attorney General of the British Virgin Islands, indicated that the board could prosecute the government for non-compliance (BVI Hansards, 1979).

7.7.1.2 Evasion And Arrears By The Private Sector

Evasion and contribution arrears by the private sector are growing problems. In recent times, the organisations are taking a more proactive stance to reduce evasion and arrears, and in some countries, legislative reform has been undertaken to strengthen the powers of the institution. In St. Lucia, the Act was amended to allow the social security organisation to garnish the assets of the defaulters and to apply a warrant without having to resort to the Courts. Garnishing is also permissible in Antigua and Barbuda, the British Virgin Islands and St. Kitts and Nevis and St. Vincent and the Grenadines. In St. Kitts and Nevis, the Acts also allows for officers of companies to be held personally liable and to be prosecuted for evasion. Some organisations have resorted to more active monitoring to help reduce evasion, for example in St. Kitts and Nevis, an important part of the inspectors' duties include "scouting," whereby a group of inspectors visit various areas to monitor new developments, and employment activities. In Antigua and Barbuda, assets of companies have also been impounded and the companies closed in some cases. The SSO also appears to have stepped up their court actions against defaulting private sector employers and self-employed persons.

Since the organisations have recognised that it is not in the best interest of the organisation and the economy to close a business and the impounding of assets are a last-resort measure, creative methods for dealing with this problem will have to be devised. In some countries there have been collaborations between the government and the social security. In Anguilla, the British Virgin Islands and Montserrat, the Labour Department will not issue a work permit without getting a "bill of good standing," from the social security board. These departments also forward a copy of every work permit granted to the social security organisation, so that they can monitor the companies. In St. Kitts and Nevis, before government projects are awarded, a "good standing certificate" has to be received from the social security. This certificate is issued before the award of each project.

There is a need for more collaborative work between the social security and the stakeholders in reducing evasion. The trade unions and employers' organisations can serve as valuable partners in the fight against evasion and it appears that in none of the countries is there a partnership between these groups. The trade unions can include the payment of contributions, as part of their collective bargaining and the employers' bodies, like the Chamber of Commerce, Employers' Federation and Hotel and Tourism Association can impress upon their membership the importance of compliance.

It is also in the interest of the trade unions to ensure that employers remit the contributions to the social security. There have been instances where trade unions have made this an issue, but it does not appear that this has been done on a systematic basis and not as a result of any collaborative work with the social security organisations. The fight against evasion, also calls for greater vigilance by the social security organisations, and for the inclusion of the contributors in that fight. The NIS, St. Lucia, has implemented this last approach with great success. (In 1999-2000, the

NIS launched a series of advertisements encouraging contributors to come in to check on their contribution and to ensure that the employer remitted the contributions deducted from their salaries).

7.7.2 Education and Sensitisation of the Public

The education and sensitisation of the public continues to be a major challenge despite the efforts made by the organisations to make social security a household name. In every social security organisation in the OECS, while it is agreed that there has been improvement in the public perception from the inception of the organisation, there still appears to be a lack of knowledge and awareness of the objectives and benefits offered by the organisation. There also appears to be some hostility towards the organisation. This negative feeling can be traced to the establishment of the organisations, when many people opposed the system fearing that it was just one more avenue for taxation by the government. After benefits began to be paid, there was greater acceptance by the public, as they were able to see some tangible returns, but this still does not appear to have wiped out all traces of resistance.

This situation demands that social security organisations go to the root cause of this problem, for unless it is tackled, this hostility, apathy and ignorance by the public to social security will continue. Social security organisations may need to commission a customer survey to identify the reasons for the problems and devise solutions to the situation. This also calls for more attention to be paid to research and to strengthening the statistical and analytical arms of the organisations. There must be an appreciation that reaching out to the public is a key component for success.

The social security organisations may also wish to consider extending their education and sensitisation programs to not just focus on the benefits and rights and obligations with regard to the social security organisations, but also to impart a message that contributors need to see social security as one pillar in their plan for retirement. The social security organisations have a vital role in getting that message across and in facilitating the process whereby persons can make alternative and complementary arrangements for their retirement. It is in light of this, as was argued in Chapters Three and Six that the social security organisations need to build partnerships with government and the insurance companies to devise affordable alternatives for persons to prepare for retirement. The partnerships may also be expanded to include the trade unions, employers associations and employers. As mentioned previously, the National Insurance Scheme of St. Vincent and the Grenadines has taken the first step towards achieving this objective, when it hosted a retirement planning seminar in April 2001, for members.

The commonality of the challenges among the SSO in the OECS suggests that there is advantage to be obtained if the organisations work together on resolving certain issues. The reciprocal agreements are another factor fostering greater co-operation and communication among them. They are all members of International Social Security Association (ISSA) and CEIS, however it is arguable that they may also benefit additionally from a smaller grouping with each other.

7.8 Conclusions

In this chapter, the aim was to provide the social, economic and political context that underpin the management of the social security organisations in the OECS and to give voice to the stakeholders, government, employers and employees. While many claimed to not have given much thought to the subject of social security before the request of the interview, many had strong positions on the subject area. They were concerned about the perceived politicisation of the nominating and appointing process of the board and believed that they had a role to play in ensuring the sustainability of the system and identified several factors for success. These factors included transparency and accountability, tripartite board representation, autonomy of the organisations, qualified and trained personnel and diversification of the investment portfolio.

They also argued that social security has played an important role in the economy and see an even more important and relevant role for the institution in the future. They argued that social security had a secondary role to play in economic development and that this would provide benefits for the system as this would stimulate growth and employment and thus provide new members for the continued existence of the system. These findings appear to be supported by the multivariate analysis testing the impact of governance on the performance of the social security organisations in the OECS.

Some of the conclusions that were presented throughout the analysis will be summed up here. They include the need for strengthening staff and system capabilities, a review of the operational and strategic processes of the organisations with a view to enhancing communication within the organisation and the delivery of service to clients. It was also recommended that there be clear separation of functions between government as regulator, the board as policy-maker and management as implementers. This recommendation was made in Chapter Three and Chapter Four, and the fact that it re-appears here is an indication of its importance. A multipartite board with representation of government, employers and workers was made, with the added recommendation that employers in the informal sector should also be represented because of the difference in their positions, capacity and capability from those in the formal sector.

The need to strengthen compliance measures by initiating creative measures in a bid to foster greater compliance, especially among those in the informal sector was considered to be important. In light of this, the board and management of the social security organisations are also urged to bring some pressure to bear on the defaulting governments, as compliance by government serves to enhance the moral authority of the organisations in enforcing compliance from the private sector.

The public awareness programs should focus not solely on the rights and obligations of members but should sensitise the public of the need for complementary provisions to that provided by the social security system. It is also recommended that government, the social security and the other stakeholders work in partnership with the insurance companies to provide affordable complementary packages for members and the public, as a whole. In keeping with this, the social security organisations will also have to review the social security package offered and identify how the package could be better tailored to the needs of the people in the OECS. Finally, it is recommended that the social security organisations in the OECS work closer with each other to not only share experiences but to provide benchmarks for performance, to ensure that they remain viable, relevant institutions well into the future.

In the next Chapter, overall conclusions of the dissertation, the policy recommendations, the limitations of the study, the areas of contributions of this study and the action for future research are presented.

CHAPTER EIGHT - CONCLUSIONS AND RECOMMENDATIONS

8.1 Introduction

Given the welfare importance and economic significance of social security funds, studies of their management and performance, particularly on an international comparison basis are few. This dissertation is intended to help fill this gap by providing a comparative analysis of the structure, governance and performance of social security funds of the countries, which comprise the Organisation of the Eastern Caribbean States (OECS).

In this chapter the main findings will be presented in section two, followed by policy implications and recommendations in section three. The chapter concludes with the contributions of the study and the identification of future research interests in section four.

8.2 Main Findings

Social security systems have undergone various transitions and have evolved from fully funded, defined benefit, publicly managed systems to partially funded or pay-as-you-go defined benefit publicly managed systems to fully funded, defined contribution, privately managed systems. There are however, many variations of these system types. The main factors leading to the transitions have been poor financial and managerial performances. The countries undergoing the full transitions have been mainly those in Latin America and Central & Eastern Europe. However, in some cases, like in the United States, Finland and the Caribbean, the decision to change from a fully funded to a partially funded or PAYG system was a deliberate political choice. These transitions have given rise to the debate on reform of social security systems, and while the debate is often portrayed as one of funded vs. pay-as-you-go financing, it is more one of public vs. private management and ultimately one of the defined nature of the system: defined benefit vs. defined contribution. It was argued that the choices made would depend not only on the level of economic development but also on the value system of a society.

In the debate on the reform of social security systems, privatisation is often seen as the panacea for government's interference and inefficiency but privatisation in and of itself is no panacea. The study identified from the use of panel data in a multivariate analysis, at least six corporate governance elements that were important for enhancing performance of the social security organisations in the OECS. They were autonomy and independence from government, accountability to stakeholders, transparency of operations, partnership-building with stakeholders, professionalism and expertise of board members, management and staff, and diversification of the investment portfolio. Integrity of board members and management was also identified, as an important characteristic needed for success. The findings of the study with respect to the percentage of the investment committee members who were non-board members were consistent with the arguments of agency theorists that outside directors add breadth and so enhance the performance of organisations (Kesner & Johnson, 1990, Weisbach, 1990).

The social security stakeholders in the OECS were not in support of the privatisation of the social security system. While one could identify reasons why some groups would not support privatisation, for example, the government does not want to pay its contribution or give up borrowing at below the market rate, employees and trade unions fear loss of jobs, even those like the employers and employers associations who do not appear to have any motive, opposed the idea of privatisation. It was argued that social security is a responsibility of the State. This may be due to the value system operating in the Caribbean, supporting the arguments by Barr (1987) and Kingson & Williamson (1998) that a society's views on social security is largely dependent on its value system.

The interview findings also reveal that the vast majority of those interviewed posit that the social security fulfils its mandated role, has a role to play in economic development and capital market development of the OECS and see a role for foreign investment in the bid to diversify the investment portfolio. That notwithstanding, the nomination and appointment processes of the board were seen to be a politicised affair, and this was more keenly expressed by the trade unions in Dominica and Grenada.

The portfolio composition is very heavily weighted towards fixed deposits, government bonds, treasury bills and government loans. The high exposure to government paper and fixed deposits increases the risks of the portfolio as explained in Chapter Five. The high percentage in fixed deposits also mean that the social security organisations (SSO) actions can have negative impacts on the financial sector, and Nicholls (1996) estimated that a 5% withdrawal of deposits by the SSO would lead to a decline in the loans to deposit ratio of 17.2%. There is very little investment in equity with an average of 8.14% in the period 1990 – 1998, and of foreign investments. This may be due to the limited opportunities available in the local economy as well as the implicit and explicit objections to foreign investments by the government and the Eastern Caribbean Central Bank. The results of the multivariate analysis indicate that the funding ratio, a measure of the sustainability and administration of the SSO would be enhanced if the portfolio were diversified, to include foreign investments.

In some countries, Antigua & Barbuda, Dominica, Grenada and St. Lucia, the government has the largest arrears of both contribution and interests income. This situation places tremendous financial pressures on the SSO, as benefits must be paid to members even if no contributions were remitted on their behalf. The incidence of defaulting governments could be traced to the motive of the government at the inception of the social security organisation. Governments who saw the introduction of the social security as an important element in facilitating economic development and financial sector deepening were more likely than not to default on payments of contributions and interest payments. In those countries, there was also a higher concentration in government paper and in investments in loans to government or government-appointed agencies. This problem of government defaulting has implications for the governance of the SSO, as it undermines the ability of the board and management to effectively manage. The problem has to be tackled because it is a form of the "free-rider" problem and reduces the moral authority of the SSO to enforce compliance from the private sector, which is a growing and endemic problem.

8.3 Policy Implications And Recommendations

The results suggest that the involvement of plan participants serves as an important "check and balance" to ensure that decisions are taken consistent with the risk-return profile of the social security organisation. The plan participants, however, report little involvement in the process. It is therefore suggested that government expands the board to make it multipartite by including not just representatives of workers and employers but also representatives of retired persons, and segments the employer representation to include employers in the informal sector. It cannot be emphasised enough however, having the representatives of the various groupings are not enough. It is ensuring that the right persons with the prerequisite qualifications, experience and character are nominated and appointed to the boards. In this regard, it is recommended that job descriptions be prepared to serve as a guide in the nomination and appointment of members. Board members and management must also recognise the importance of their appointments and the fiduciary responsibility entrusted in them.

Accountability is also a key element and the nominating organisations also have a role to play in ensuring that there is accountability. It is in light of this that it is recommended that the various nominating and other organisations institute a reporting mechanism whereby at least annually the respective board member(s) meet with the groups of workers and employers to report on their activities over the past year. The social security organisations need to also take steps to improve on their accountability mechanisms. While the financial statements of all the SSO were laid before parliament, (in many cases these statements were laid more than a year after the financial year ended) and two organisations published the financial statements in a local newspaper, there does not appear to be a systematic approach in disseminating the information to contributors.

It is therefore recommended that abbreviated financial statements should be published in at least the most widely circulated local newspaper and copies of the financial statements disseminated to the trade unions and employers associations for dissemination to their members. It is also recommended that the SSO meet at least once a year with members at a general meeting to not only provide information on the projects undertaken but to inform members of future plans and to obtain feedback from those whom they serve. This may also provide the opportunity to identify the root causes of the apathy of the social security contributors. It is also recommended to enhance not only accountability but also transparency that in addition to the tri-annual actuarial reviews, independent tri-annual strategic and operational reviews are carried out.

The results of the multivariate analysis suggest the need to diversify the portfolio to include greater investments in both equity and foreign investments and it would be beneficial if government, the social security organisations and the Eastern Caribbean Central Bank engage in discussions to formulate a policy for the inclusions in the portfolio. A look at the qualification and skill profile of staff in two social security organisations and discussions with the directors and human resource managers in the others reveal that there is an absence of training in investments. It is therefore recommended that the SSO invest in acquiring those skills, by training existing staff or recruiting persons with those skills.

Government's indebtedness to the system undermines not just the financial stability of the social security organisations but also the moral authority to demand compliance from the private sector and the self-employed persons, and it is recommended that the defaulting governments make good their payments and endeavour to maintain a "clean slate" with the social security organisations.

8.4 Contribution To The Body of Knowledge And Future Research Interests

This study is thought to be the first of its kind in analysing the impact of corporate governance on a social security system. While the study has focused on the OECS, it can serve as a platform for future work in the area not only in the developing world but also the developed world. The analysis of the role of corporate governance in the sustainability and viability of social security organisations by identifying the governance factors that impact on performance is an important contribution and it is hoped that it leads to a re-examination of the reform initiatives.

By focusing on the OECS, it has added to the literature not just on the area of social security but also in the area specific to the OECS, for the Caribbean and in particularly the OECS, is often ignored by researchers. This dissertation traced the transition process and identified the trajectories, which shaped the relationship of the government with the social security organisations in the OECS and analysed the impact of management issues on the performance. It has also resulted in the creation of a database of financial and governance indicators of the social security organisations in the OECS. It also for the first time gave voice to the stakeholders of the social security organisation in the OECS.

One of the areas for future work is the extension of the study to a larger data set by including other Caribbean countries, Latin America, Europe and America. Another area is the study of how the SSO boards work and a study of interest is to follow a board from its appointment to its end of term, studying its relationship with the government and the stakeholders, both internal and external of the organisation. A third area of future interests is the analysis of other corporate governance variables, example, the qualifications of the board and management on the performance of the OECS organisations and other organisations. A fourth area is the study of compensation policy on the performance of the board and of the organisation. A fifth area of interest is the role of stakeholders in enhancing the governance of the social security organisations.

This study, it is hoped will inform and lead to a re-examination of the reform debate to include the role of governance in the reform and sustainability of social security organisations worldwide.

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Appendix 1a

Comparative Analysis Of The Position Of the ILO And World Bank

General Principles	ILO Perspective	World Bank Perspective
Proposed Pension System	No Universal Approach; But A Pension System Based On The Culture And Habits Of Its Society A Perspective Not Strictly Focused On economic Factors; It Should Reflect The Type Of Regulatory System Surrounding The Social And Economic Environment	Universal Approach Aimed At Merging The Different Social Programmes Essentially Focused On The Economic Perspective
Objectives Of Pension System	1st: Public Pensions Should Provide Regular Income Security Above A Minimum Subsistence Level In Old Age 2nd: Old Age Public Pensions Should Promote The Development Of Contractual Savings	1st: Old Age Public Pensions Should Increase National Savings 2nd: Providing Insurance Protection In The Event Of Specified Contingencies
Functions Of The Pension System	Horizontal And Vertical Redistribution Of Income To The Different Occupational Groups Of Workers	Capital Formation via Mandatory Public Pension Savings Scheme Limited Income Redistribution Targeted To The Poor
Structure Of The Pension System	*First Pillar:* Universal Safety Net Covering Those Not Protected By Any System; Means-Tested Benefits; Financed From State Budget *Second Pillar:* Mandatory Coverage; Contributory Basis; Public Or Private Administration With A Public Mandate Defined In Either Case; Earnings-Related Pensions On A Solidarity Basis; Partially Funded Or Operating On A PAYG Basis *Third Pillar:* Voluntary & Complementary Pensions; Fully Funded	*First Pillar:* Mandatory Component Of A Limited Proportion; Public Administration; Financed From State Budget *Second Pillar:* Mandatory Participation; Private Administration; Pensions Determined On An Individual basis Without Any Solidarity; Fully Funded Through Mandatory Retirement Savings And/Or Employer-Sponsored Occupational Pension Schemes *Third Pillar:* Voluntary Participation; Complementary pensions Through Individual Retirement Savings; Fully Funded
Financing Method	*Defined Benefit Pensions:* Pensions Are Legally Determined According To a Benefit Formula, In Line With ILO Convention No. 67. *Partial Funding:* Providing Means To Achieve Redistribution For Intra & Inter Generational Solidarity	*Defined Contribution Pensions:* Contributions Are Fixed While Pensions Are Not Determined Until The Time Of Retirement; This Is A Technique For The Advance Funding Of Pensions Excluding Any Redistributive Mechanism – The Cost Is Known While The Benefit Is Unknown *Full Funding:* An Individual Savings Approach Under Which Each Worker Is only Accountable For Him/Herself
Role Of The State	The State Is Responsible For Setting Laws Concerning Social Protection; The State Acts As The Financial Guarantor Of The System And It Has The Means To Provide Security To The Entire Population	A Minimal Role Of The State Providing Subsidies As Each Worker Is Personally Accountable For Old Age Protection According To His/Her Means In The Context of A Competitive Market Minimum Subsistence Pension To The Poor
Overall Strategy	The Priority Of The System Is To Promote National Solidarity By Means Of A Social Safety Net And Then To Promote Occupational Solidarity Through The Extension of Coverage To All Workers The State Should Regulate Complementary pension Schemes	Maintain A Minimal Public Pension Scheme Pensions Should Mainly Serve To Promote National Savings, Individual Savings Programmes And Employer-Sponsored Occupational Pension Schemes

Source: Adapted From Gbossa (1999)

Appendix 1a (con't)

Comparative Analysis Of The Position Of The ILO And World Bank

Specific Provisions	ILO Perspective	World Bank Perspective
Difficulties Encountered By Public Pension Systems	Difficulties Due To The Ageing Of The Population (Demographic Factors) And The Fall In Activity Rates As A Result Of The Rise In Unemployment And Under-Employment	Difficulties Due To Demographic Factors [& Inefficiencies of Operations]
Level Of Benefits	According To ILO Conventions 102, 128 & 131, The Minimum & Maximum Pensions For Someone Who Has Accumulated 30 Years Of Contributions Are 40% & 65%, Respectively, Of Pensionable Earnings	Benefits Are Too Generous In Public Pension Systems
Relations Between Contributions And Benefits	The Link Does Not Have To Be Established At The Individual Level But Has To Exist AT The Global Level. This Is Done In Order To Emphasise On The Function Of Universal Coverage, To Link Benefits With The Needs And To Reinforce Solidarity	There Must Be A Direct Link Between Contributions And Benefits At The Individual Level Such That Each Person Should Receive Equal To The Accumulated Contributions As A Matter Of Equity This Eliminates Distortions
Administration	The "ILO Enquiry On The Cost Of Social Security" Shows That The Administrative Expenses Of Public Pension Systems Are Not Higher Than Those Of Private Systems The Best Guarantee For Quality And Independence Of Administration Lies In The Participation Of Social Partners As Recommended By Convention No. 102	Private Pension Schemes Perform Better Than Public Systems: Administrative Costs Are Lower; The Quality Of Service Is Higher; No External Pressures Exists
Impact Of The Pension System On The Economy	Based On The Lack Of Consensus Among Economists With Respect To The Impact On The Economy, It Appears That The Neo-Liberals Consider The Impact To be Negative, While The Keynesians Perceive Positive Aspects	The Global Impact Of Pension Schemes On The Different Economic Sectors (Including Production, Savings And Capital) Is Negative The Mandatory Individual Retirement Savings Schemes Represent The Best Solution To Provide Old Age Income Protection

Source: Adapted From Gbossa (1999)

Appendix 1b

Summary Of Social Security Reforms in Latin America And Central And Eastern Europe

Country	**Funded Pillar, Privately Managed**	Safety Net	**Status Of Old System**	**Transition Mechanism**
Argentina	Optional Second Pillar	First Pillar Flat Pension	Reformed, But Open To New Workers	Compensatory Pension For Previous Years Of Service
Australia	Mandatory Second Pillar	Means-Test First Pillar	Fully Functional	Not Needed, Second Pillar Added First
Bolivia	Primary System	Annual Pension Benefit For Those At Least 21 Years of Age in 1995 out of shares in state-owned firms	Closed To New Workers And Those Below The Age of 35	Compensatory Pension
Chile	Primary System	Minimum Pension Guarantee	Closed To New Workers	Recognition Bonds Payable At Time Of Retirement
Colombia	Optional Primary System	Minimum Pension Guarantee	Slightly Reformed, But Open To New Workers	Recognition Bonds
El Salvador	Primary System	Minimum Pension Guarantee	Closed To New Workers And Those Under The Age Of 35	Recognition Bonds
Hungary	Optional Primary System	Earnings-Related First Pillar	Closed To New Entrants	Compensatory Pension
Kazakhstan	Primary System	Minimum Pension Guarantee	Closed Completely	Compensatory Pension
Mexico	Primary System	Minimum Pension Guarantee	Closed Completely	Current Workers Retain Rights To State Pension If Higher
Peru	Optional Primary System	None	Open To New Workers	Recognition Bonds At Time Of Retirement
Poland	Mandatory Second Pillar	Notional Accounts First Pillar	Closed To New Entrants And Workers Under The Age of 30	Notional Initial Capital
Sweden	Mandatory Second Pillar	Notional Accounts First Pillar	Conventional DB Closed	Compensatory pension In Transition To Notional Accounts
United Kingdom	Optional Second Pillar	Flat First Pillar	Open To All	Compensatory Pension Calculated Based On Last Contribution
Uruguay	Optional Second Pillar	Earnings Related First Pillar, But With Ceiling	Reformed, But Open To New Workers	Years Of Service Recognised For Those Under 40, But Under New Formula; Older Cohorts Get Reformed Benefits, Phased In

Source: Schwarz & Demirguc-Kunt (1999:28)

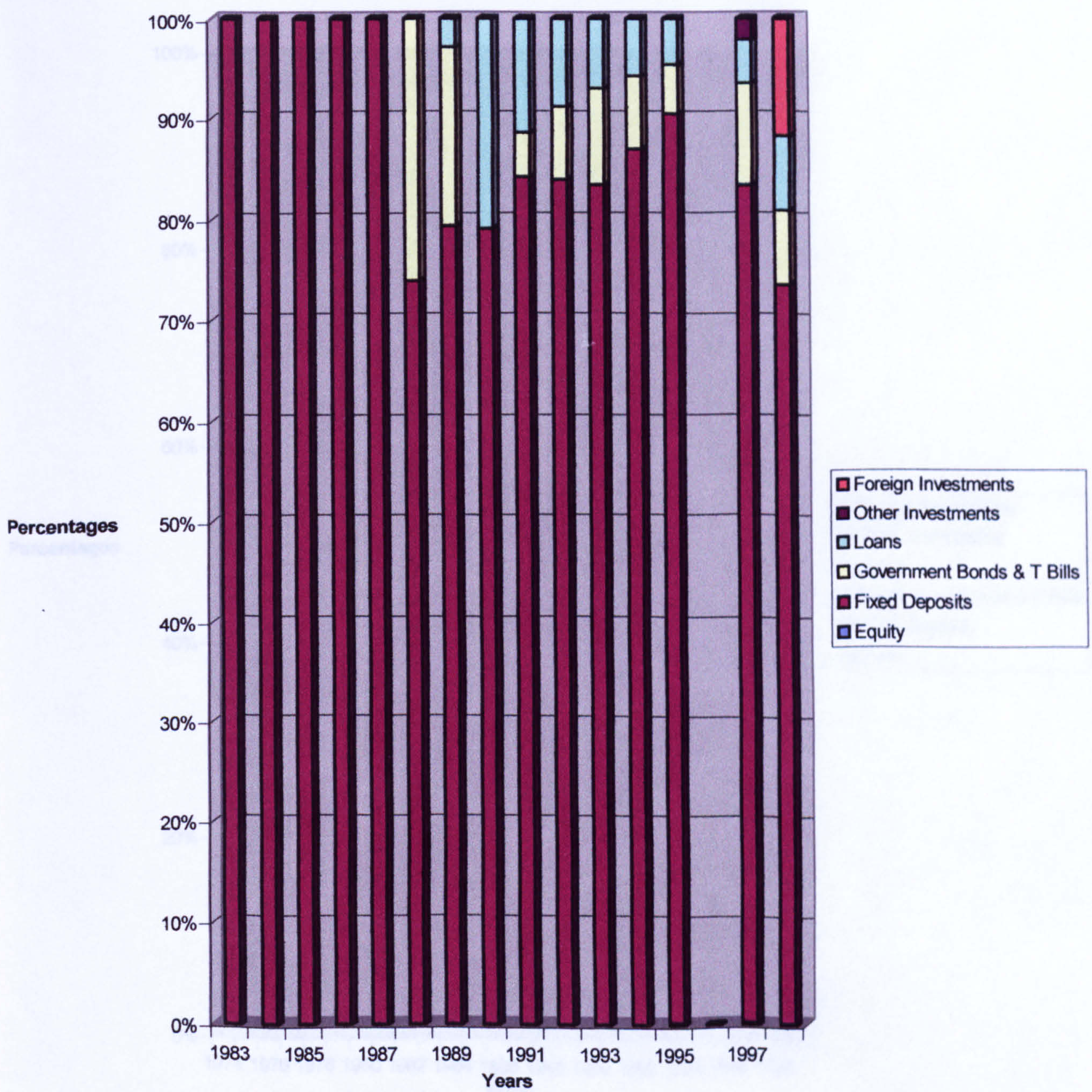
Appendix 2

Legend for Table 4.1

Abbreviations	Meaning
Min	Minister
Min*	Minister with the concurrence of the Leader of the Opposition
MinCab	Minister on the advice of Cabinet
MinR	Minister on the recommendations of the association of trade unions and employers associations
MinC	Minister after consultation with the association of trade unions and employers associations
MinN, Min*N	No provisions made specifically for consultation or recommendations with anyone for the appointment. In the case of the British Virgin Islands, the Act stipulates there will be two persons representing the government, but specifies that the Chairman and the Deputy Chairman shall be made in concurrence of the Leader of Opposition, and so in effect the two persons representing government are the Chairman and Deputy.
Gov	Governor-General
GovC	Governor-in-Council
Govc	Governor General after consultation with the employees and employers' bodies
GovM	Governor-General on advice of the Minister
Cab	Cabinet
PSC	Public Service Commission
BOD	Board of Directors
BOD*	Board of Directors with approval of the Minister
Bod+	The Board of Directors appoints but the remuneration of the Director is with the approval of the Minister
Dir	Director
Dir*	Director on advice of the Board
Dir+	Director with the approval of the Board
N/A	The Act does not make any specific mention of the appointment of a Deputy Chairman
ANG	Anguilla
ANT	Antigua and Barbuda
BVI	British Virgin Islands
DOM	Dominica
GRE	Grenada
MON	Montserrat
SKB	St. Kitts and Nevis
SLU	St. Lucia
SVG	St. Vincent and the Grenadines

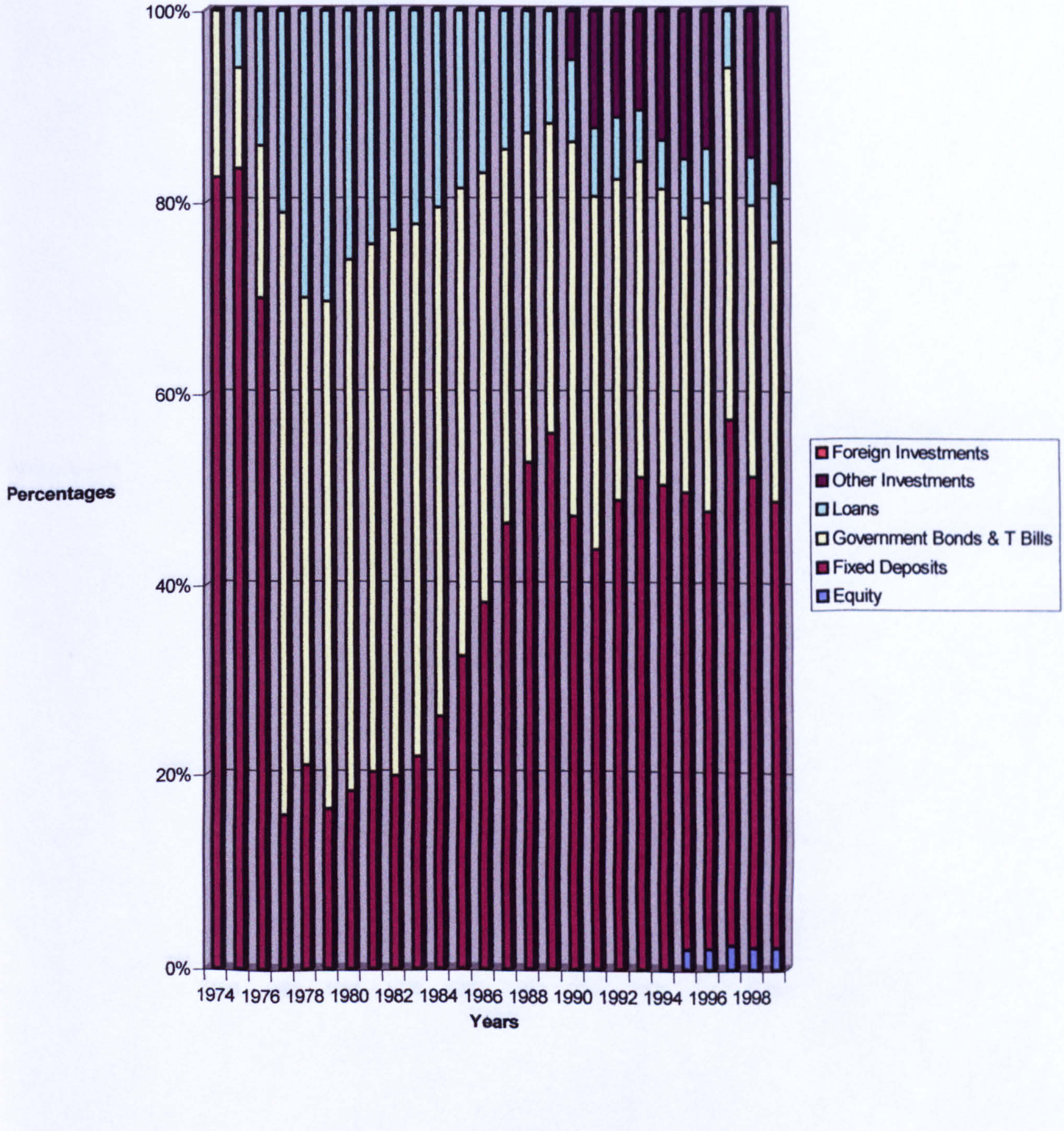
Appendix 3

Anguilla Social Security Board Portfolio Composition



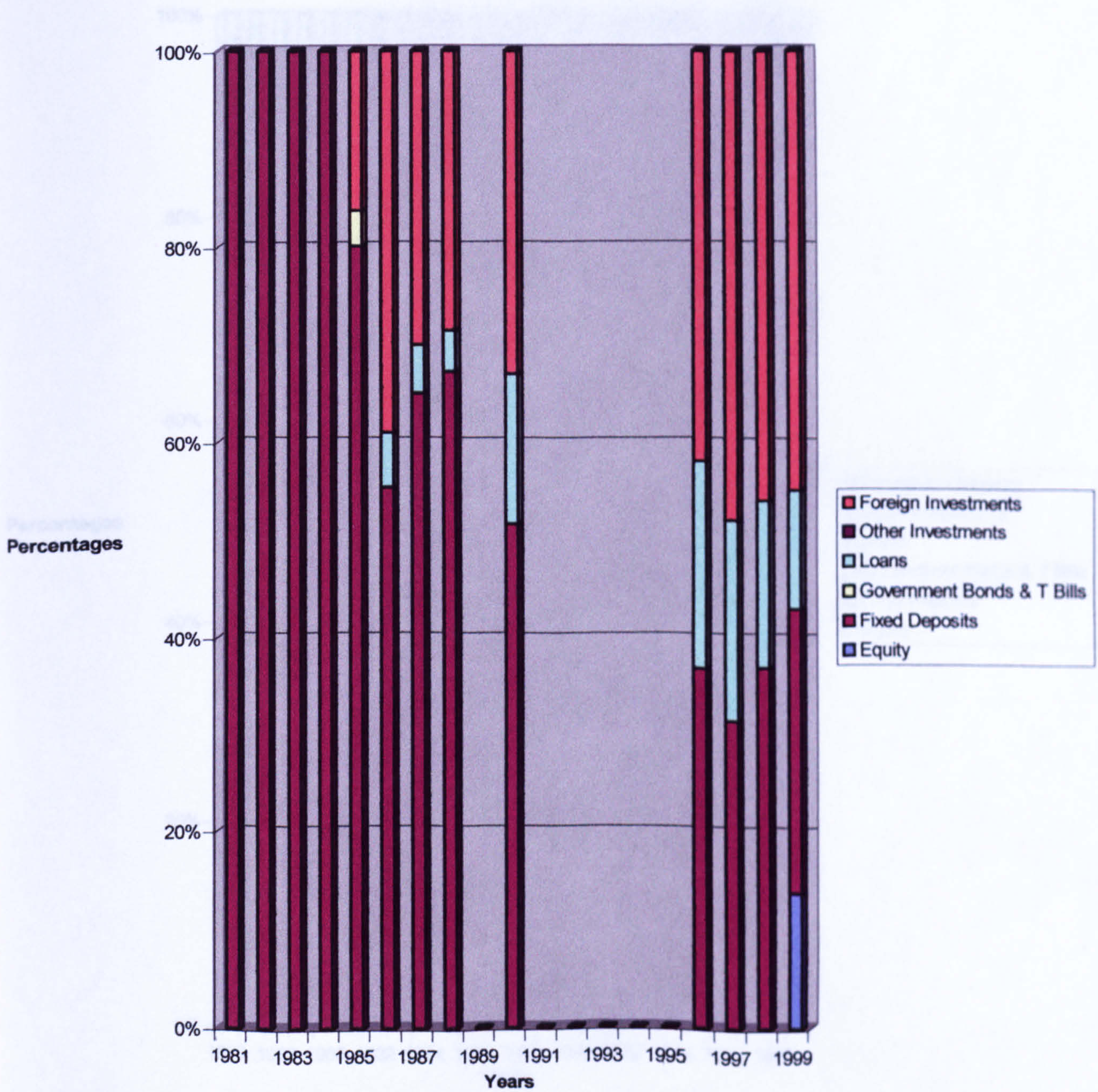
Appendix 4

Antigua & Barbuda Social Security Board Portfolio Composition



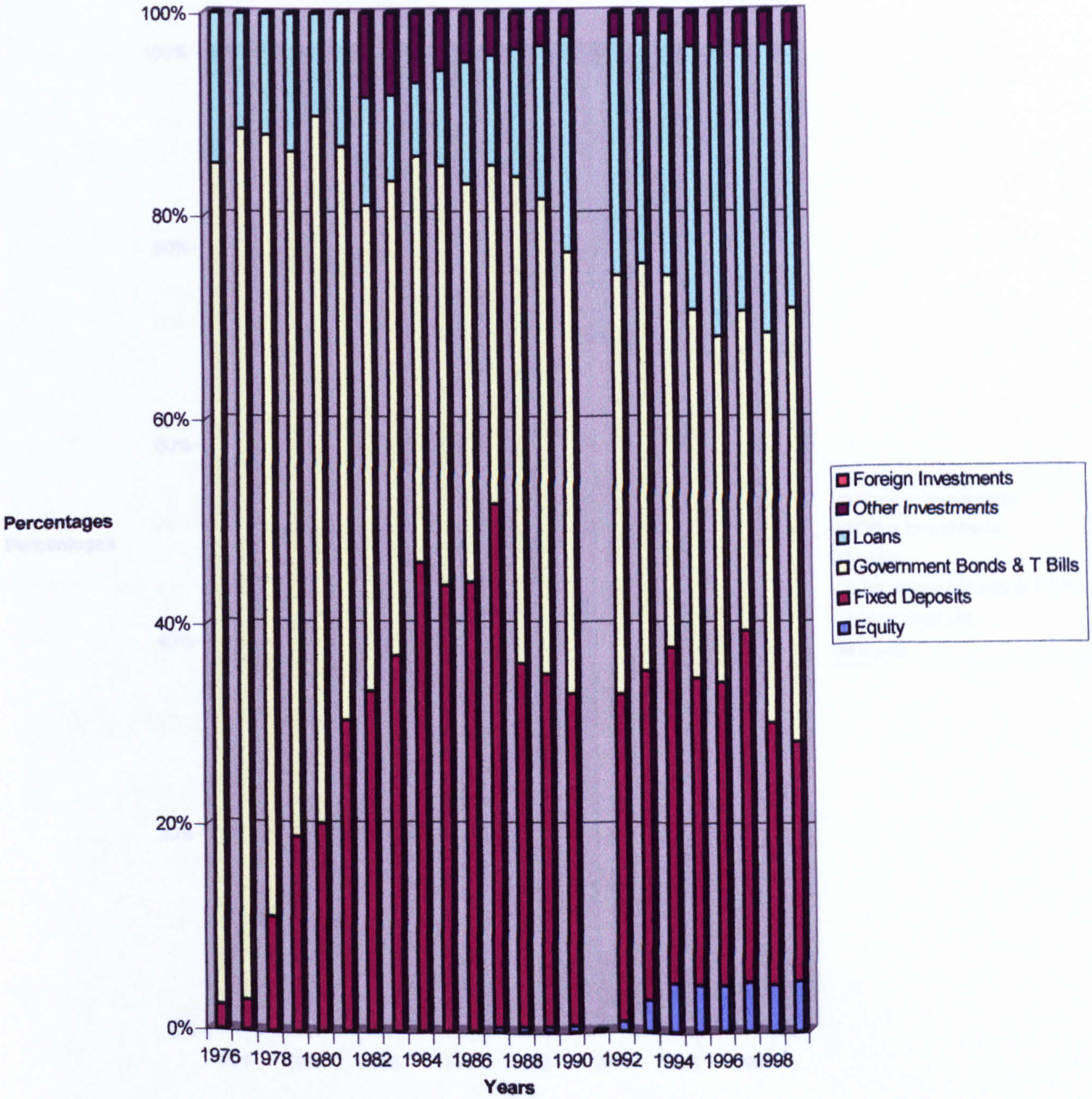
Appendix 5

British Virgin Islands Social Security Board Portfolio Composition



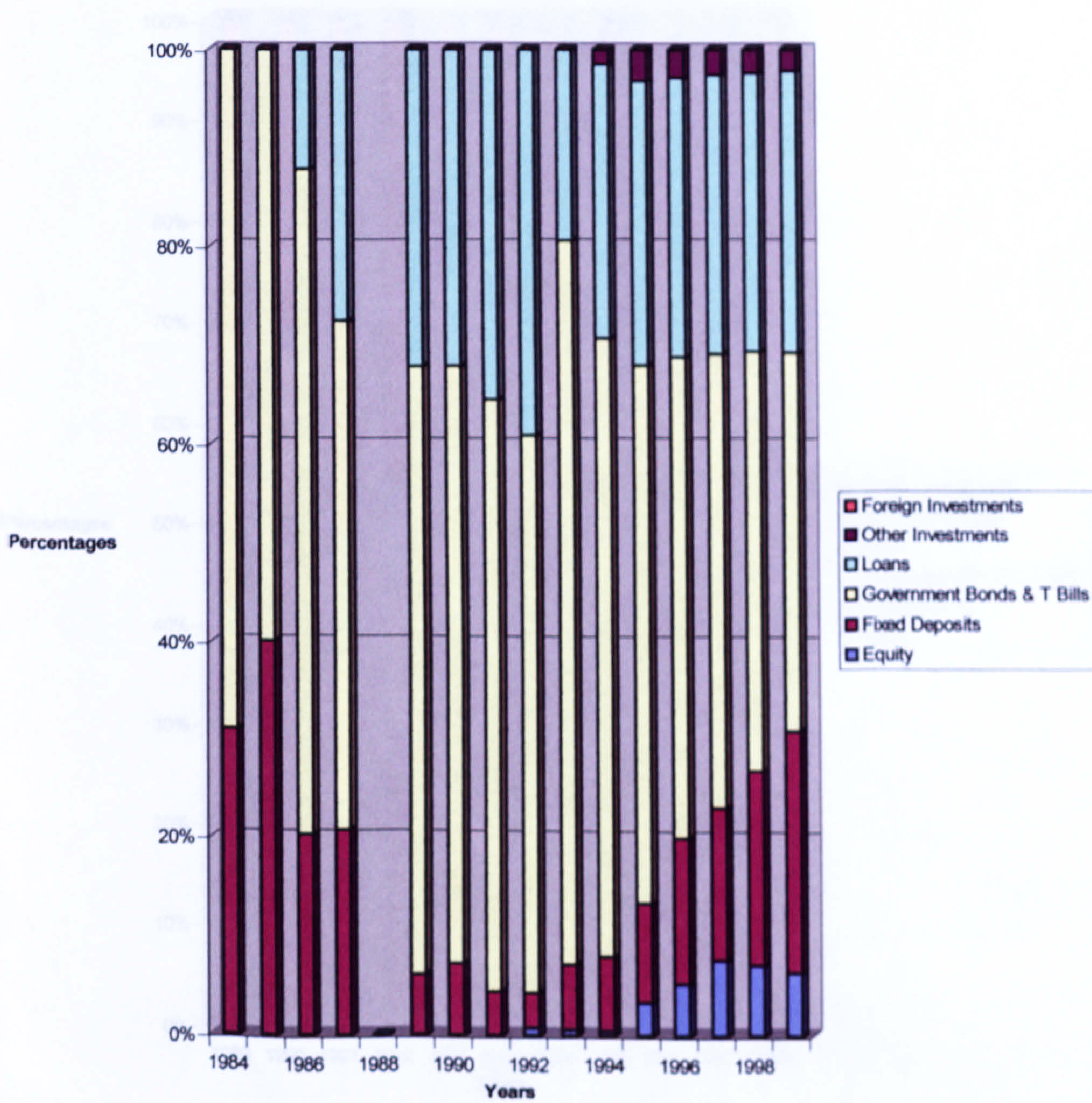
Appendix 6

Dominica Social Security Scheme Portfolio Composition



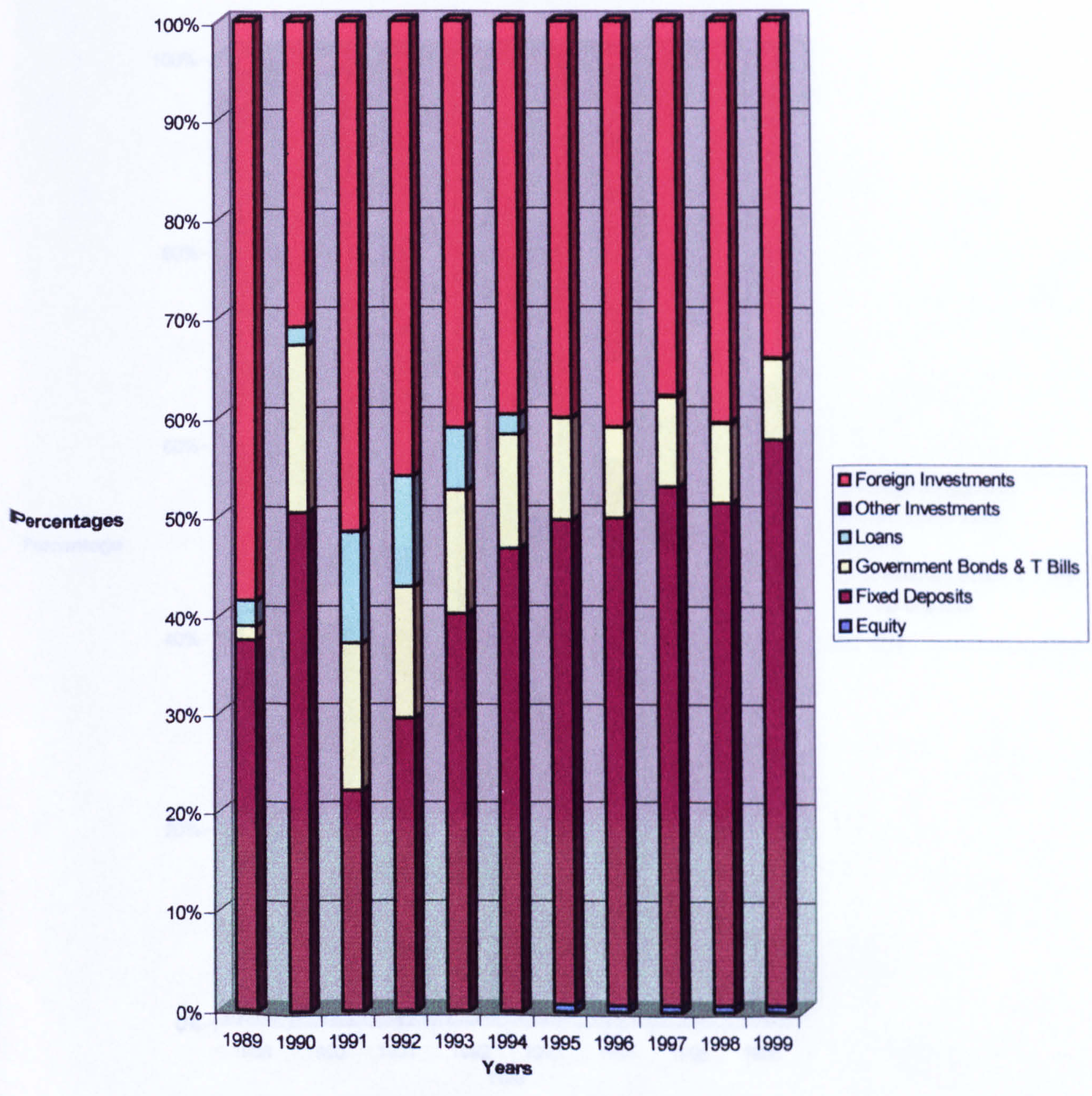
Appendix 7

Grenada National Insurance Scheme Portfolio Composition



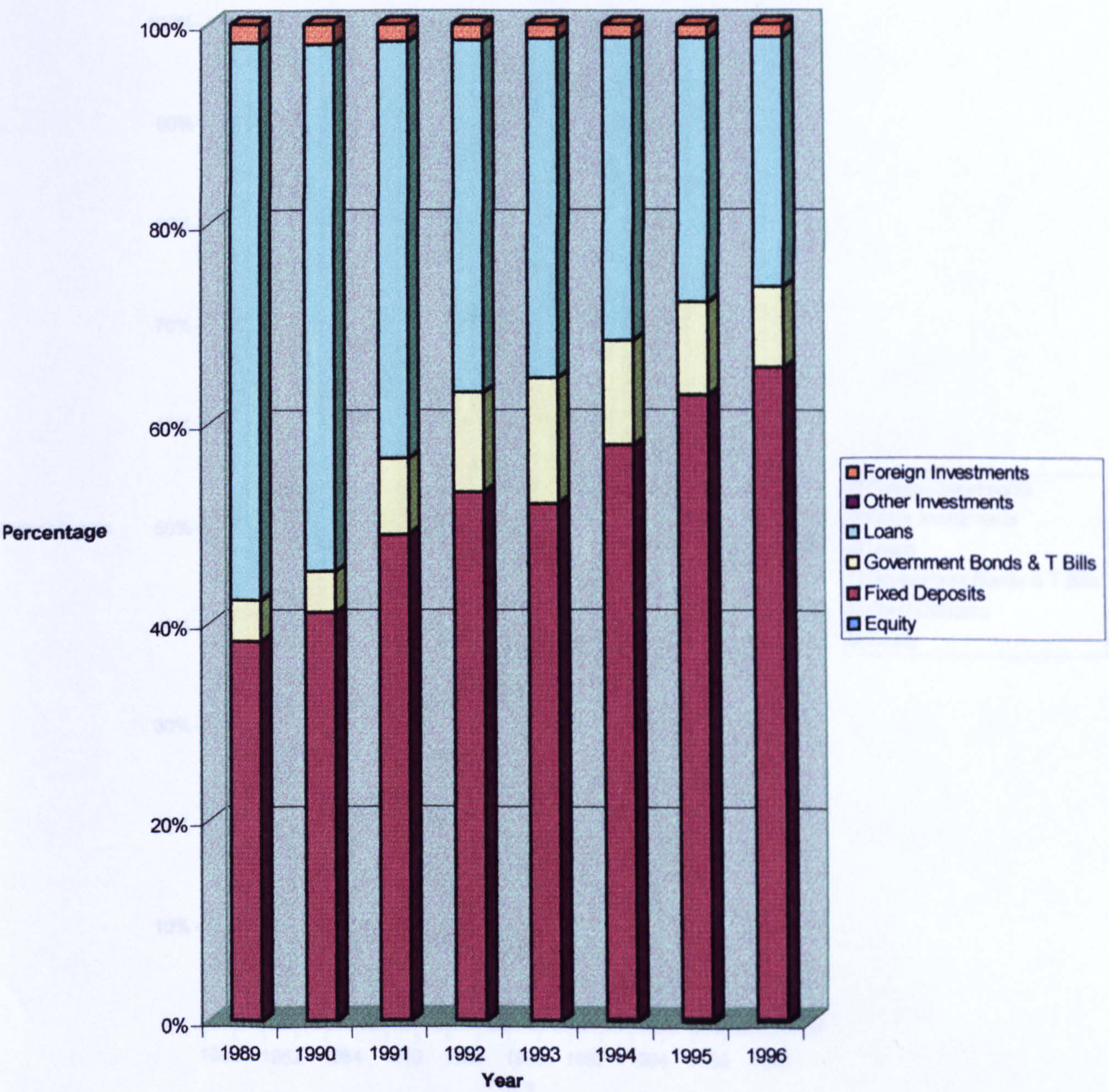
Appendix 8

Montserrat Social Security Board



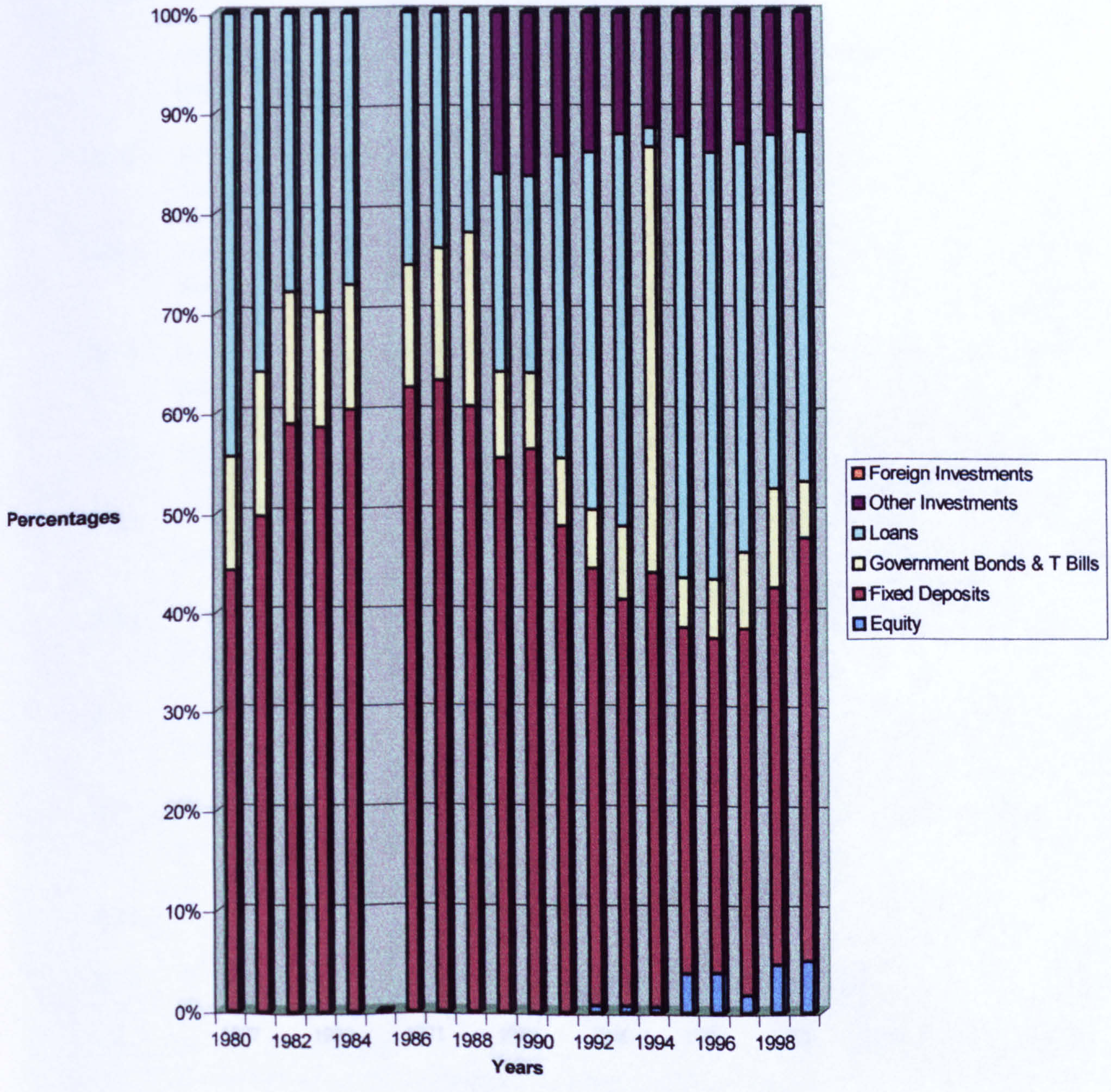
Appendix 9

St. Kitts & Nevis Social Security Board Portfolio Composition



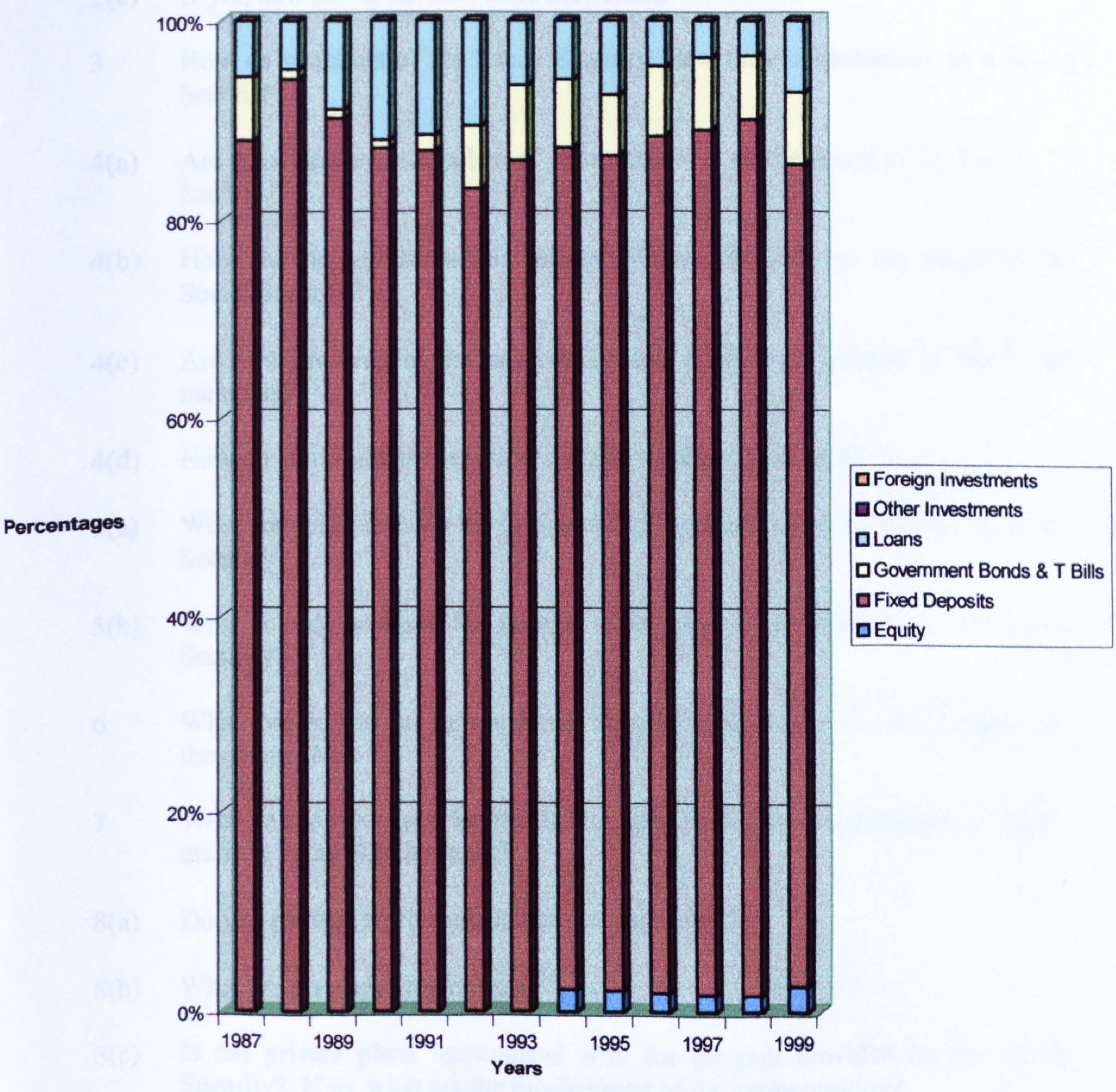
Appendix 10

St. Lucia National Insurance Scheme Portfolio Composition



Appendix 11

St Vincent & The Grenadines National Insurance Scheme Portfolio Composition



Appendix 12a

Interview Questions For Ministers, Board Members And Social Security Directors

1(a) What do you see as your role as Minister/Social Security Director?

1(b) Has Government ratified the ILO Conventions on Social Security?

2(a) What do you see as the role of social security?

2(b) Do you think that Social Security fulfils its mandate to its members?

2(c) If yes, how so? If no, how have they failed?

3 How do members of the Social Security view their contribution: as a tax or benefit?

4(a) Are there employees/employers' representatives on the Board of the Social Security?

4(b) How are the representatives selected for membership on the Board of the Social Security?

4(c) Are you involved in the nominating and appointing process of the Board members?

4(d) How do you evaluate their representation and performance?

5(a) What are your views on the investment of the funds accumulated by the Social Security?

5(b) What role do you see for foreign investment in the portfolio of the Social Security?

6 What role do you see for the Social Security in the economic development for the country?

7 What role do you see for the Social security in the development of capital markets in the OECS region?

8(a) Do you provide a private pension for employees?

8(b) What are the eligibility criteria?

8(c) Is the private plans harmonised with the pension provided by the Social Security? If so, what are the mechanisms of the harmonisation?

Appendix 12a (con't)

Interview Questions For Ministers, Board Members And Social Security Directors

8(d) Do you provide retirement planning programmes for your employees & contributors?

8(e) If so, what kind of programmes and what's the frequency? If not, do you plan to introduce any in the future?

9 To what extent is the pension provided by the Social Security the main form of income for your members/employees in retirement?

10 What role do you see for Social Security in the future, and how do you see the institution fulfilling that role?

11 What are your views on the privatisation of Should Social Security?

12 How do you respond to the charges made about the "politicisation" of the nominating and appointing process of the Board of the Social Security Organisation?

13 How do you respond to the charges made about the interference by government in the investment and management operations of the Social Security Organisation?

14 What are the challenges facing the Social Security Organisation?

15 Please feel free to provide any other information on the Social Security issues

Appendix 12b

Interview Questions For Workers And Employers' Representatives And Employers

1(a) How many members/employees belong to your organisation?

1(b) Are they all members of the Social Security System?

2(a) What do you see as the role of social security?

2(b) Do you think that Social Security fulfils its mandate to its members?

2(c) If yes, how so? If no, how have they failed?

3 How do your members/employees view their contribution: as a tax or benefit?

4(a) Are there employees/employers' representatives on the Board of the Social Security?

4(b) Are the representatives from your organisation?

4(c) How are the representatives selected for membership on the Board of the Social Security?

4(d) How do you evaluate their representation and performance?

5(a) What are your views on the investment of the funds accumulated by the Social Security?

5(b) What role do you see for foreign investment in the portfolio of the Social Security?

6 What role do you see for the Social Security in the economic development for the country?

7 What role do you see for the Social security in the development of capital markets in the OECS region?

8(a) Do you provide a private pension for members/employees?

8(b) What are the eligibility criteria?

8(c) How many of the employers where you are the bargaining agent/whom you represent provide a private pension plan for their workers?

8(d) Are these private plans harmonised with the pension provided by the Social Security? If so, what are the mechanisms of the harmonisation?

Appendix 12b (con't)

Interview Questions For Employees And Employers' Representatives And Employers

8(e) Do you provide retirement planning programmes for your employees?

8(f) If so, what kind of programmes and what's the frequency? If not do you plan to introduce any in the future?

9 To what extent is the pension provided by the Social Security the main form of income for your members/employees in retirement?

10 What role do you see for Social Security in the future, and how do you see the institution fulfilling that role?

11 What are your views on the privatisation of Social Security?

12 Please feel free to provide any other information on the Social Security issues

Appendix 12 c

Interview Questions For Insurance And Finance Companies

1 What are your views on Social Security Provisions in your country?

2(a) Do you provide any retirement planning seminars for clients, both individually and in groups?

2(b) If so, how is the programme structured?

2(c) How many of these programmes have you conducted?

3(a) What retirement packages do you offer?

3(b) How long have you offered this programme?

3(c) How many of these packages have you sold?

3(d) Are these programmes offered on an individual basis or group basis?

4(a) Do you provide and administer private pension plans for and on behalf of employers?

4(b) If so, how long have you offered this service?

4(c) How many private pension plans do you administer on behalf of employers?

5(a) Are these retirement products and pension plans harmonised with Social Security?

5(b) If so what are the harmonisation mechanisms?

6 How do you view the Social Security Organisation?

Appendix 13

List Of Interviewees

Anguilla

Board Members: Current and Past

Mr Victor Banks
Minister of Finance and Social Security
The Valley

Mr Ronald Webster
Former Chief Minister
The Valley

Mr Marcel Fabian Fahie
Permanent Secretary
Ministry of Economic Development Investment & Commerce
The Secretariat
P O Box 60, The Valley

Mr Colville L. Petty
Writer/Historian and Curator
P O Box 966, The Valley

Mr Ralph Hodge
Chairman of the Board
Anguilla Social Security Board
P O Box 243, The Valley

Executive Director

Mr Timothy Hodge
Director
Anguilla Social Security Board
P O Box 243, The Valley

Workers' Representatives

Mr Alkins Rogers
President
Anguilla Civil Service Association
P O Box 1320, The Valley

Mr Leroy Hill
President
Anguilla Teachers Union
The Valley

Mr Ricky Ruffin
Past President
Anguilla Youth Council
The Valley

Appendix 13 (Con't)

List Of Interviewees

Mr Kelly Richardson
President
Anguilla Hotel & Allied Workers Union
The Valley

Employers' Representatives

Ms Mimi Gratton
Executive Director
Anguilla Hotel & Tourism Association
The Valley

Mr Courtney Devonish
Vice President
Anguilla Chamber of Commerce & Industry
The Valley

Employers

Mr Wendell Proctor
Managing Director
Proctor & Sons
The Valley

Ms Connie Brooks
Managing Director
Ashley & Sons
The Valley

Meridith & Jeremiah Gumbs
Rendezvous Bay
The Valley

Dr Phyllis Banks-Fleming
Human Resource Manager
Cap Julica Hotel
The Valley

Ms Ann Gumbs
Financial Controller
Mallihouna Hotel
The Valley

Mr Cephas Webster
Manager
Quality Construction
The Valley

Mr Oliver Brooks
Manager
Oliver Brooks Construction
The Valley

List Of Interviewees

Insurance Companies

Ms Monica Gumbs
Manager
ALICO Insurance
The Valley

Other Stakeholders

Mrs Meridith Gumbs
Labour Commissioner
Government of Anguilla
The Valley

Staff Members of Anguilla Social Security Board

Mrs Yolanda Gumbs
Deputy Director

Mrs Dorice Fleming
Accountant

Ms Lena Sasso
Benefits & Contributions Manager

Antigua and Barbuda

Board Members: Current

Mr Leroy King
Chairman of the Board
Antigua & Barbuda Social Security
P O Box 1125, St. John's

Executive Director

Mr Lennox Gardner
Director
Antigua & Barbuda Social Security
P O Box 1125, St. John's

Workers' Representatives

Mr Maurice Christian
President/Workers' Representative On The Board
Antigua & Barbuda Labour Union
P O Box 1125, St. John's

Appendix 13 (Con't)

List of Interviewees

Mr Wigley George
President/Employers' Representatives On The Board
Antigua Trades & Labour Union
P O Box 3, St. John's

Ms Vernest I. Mack
Asst General Secretary
Antigua & Barbuda Teachers Union
Sweetes

Employers' Representatives

Mr Lionel Boulous
Executive Director
Antigua & Barbuda Chamber of Commerce
North Street, St. John's

Mr Henderson Bass
Secretary
Antigua Employers Federation
P O Box 298, St. John's

Employers

Ms Sharon Knight
Personnel Officer
Antigua Commercial Bank
P O Box 95, St. John's

Mr Norris O Scholar
Divisional Manager/Human Resources
Cable & Wireless (West Indies) Ltd
P O Box 65, St. John's

Mr Leslie Williams
Deputy Port Manager
Antigua & Barbuda Port Authority
P O Box 1052, St. John's

Mrs Lucette James-Wint
Asst. Training Officer
LIAT
P O Box 819, St. John's

Mr Paul Ashe
Manager
Barclays Bank PLC
High Street

Appendix 13 (Con't)

List Of Interviewees

Insurance Companies

Mr Asman Strann
Business Manager
Royal & Sun Alliance
Long & Temple Streets
St. John's

Mr Henson James
Agency Manager
British American Life Insurance Company
St. John's

Staff Members Antigua & Barbuda Social Security Board

Mr Eversleigh Warner
Compliance Manager

Mr Edward Jules
Financial Controller

Ms Bernadine Issac
Human Resource & Public Relations Manager

Mr Luther Mills
Data Processing Manager

British Virgin Islands

Board Members: Current

Mr Andrel Smith
Employers Representative
BVI Social Security Board

Mr John Rymer
Workers' Representative
BVI Social Security Board

Executive Director

Mrs Antoinette Skelton
Director
British Virgin Islands Social Security Board
P O Box 698
Road Town
Tortola

Appendix 13 (Con't)

List Of Interviewees

Workers Representatives

Mr Stanton
President
BVI Nurses Association

Employers' Representatives

Ms Nadine Battle
Executive Director
BVI Chamber of Commerce & Hotel Association
P O Box 376, Road Town

Mr Michael Herbert
BVI Taxi Association
Road Town

Employers

Ms Cyralene Williams
Human Resource Assistant
The Moorings
Road Town

Social Security Staff

Mrs Jeanette Scatliffe-Boynes
Deputy Director/ Human Resource & Public Relations Manager

Mr Clarence Faulkner, JR.
Investment Manager

Mr Joseph Williams
Senior Inspector

Mr Alwon Smith
Inspector

Mr Roy Barry
Financial Controller

Ms Linda Scatliffe
Contributions Supervisor

Ms Shirleen Stoutt
Benefits Supervisor

Appendix 13 (Con't)

List Of Interviewees

Dominica

Minister's Office

Mr John Toussaint
Minister of Health & Social Security
Government of Dominica
Roseau

Mr John Fabian
Permanent Secretary
Ministry of Health & Social Security
Roseau

Board Members: Past

Mr Hudson Savarin
Former Director
Dominica Social Security
P O Box 772, Roseau

Executive Director

Ms Janice Jean Jacques
Acting Director
Dominica Social Security
P O Box 772, Roseau

Workers' Representatives

Ms Fedeline Moulon
General Secretary
Dominica Amalgamated Workers Union
P O Box 137, Roseau

Mrs Scotland
General Secretary
Waterfront & Allied Workers Union
Roseau

Mr Bernard Nicholas
General Secretary
Dominica Trade Union
Independence Street
Roseau

Mr Thomas Letang
General Secretary
Dominica Public Service Association
Valley Road
Roseau

Appendix 13 (Con't)

List Of Interviewees

Mr Michael Augustine
General Secretary
Dominica Association of Teachers
7 Boyds Avenue
Roseau

Sergeant Cleville Mills
President
Police Welfare Association
Bath Road
Roseau

Employers' Representatives

Mr Athie Martin
Executive Director
Dominica Hotel & Tourism Association
P O Box 109, Roseau

Mr Chris A. Joseph
Industrial Relations, Research & Information Officer
Dominica Employer' Federation
P O Box 1783, Roseau

Employers

Ms Verlie Shaw
General Manager
Roseau Co-operative Credit Union
P O Box 175, Roseau

Mr Vincent Elwin
General Manager
Dominica Port Authority
P O Box 243, Roseau

Mr Benoit Bardouille
Accountant
Dominica Port Authority
P O Box 243, Roseau

Mrs Bertilia Leblanc-McKenzie
Human Resource Officer
Dominica Electricity Services
P O Box 1593, Roseau

Mrs Audrey Thomas
Personnel Manager
Dominica Coconut Products
P O Box 18/1655, Roseau

Mrs Leslie-Ann Green
Personnel Manager
O D Brisbane & Sons (D/ca) Ltd – Brizee Mart
P O Box 2, Roseau

Appendix 13

List Of Interviewees

Mrs Marion Dominique-Taylor
Personnel Manager
Dominica Water & Sewerage Company
P O Box 185, Roseau

Ms Mavis Christain
Head of Personnel & Administration
H.H.V. Whitchurch & Co. Ltd
P O Box 71, Roseau

Insurance & Finance Companies

Ms Marina Daisy
Branch Administration Manager (Ag)
Colonial Life Insurance Company (T/dad) Ltd
17 Great George Street
Roseau

Ms Joan Oscar
Manager
American Life Insurance Company
P O Box 503, Roseau

Mr Anthony Moore
Former Chief Executive Officer
Dominica Unit Trust Corporation Ltd
P O Box 837, Roseau

Staff Members Dominica Social Security

Mr Francis Letang
Manager Public Relations, Compliance and Statistics

Mr Augustus Ettienne
Internal Auditor

Ms Josette Harney
Personnel & Administrative Officer

Mrs Emanuella Darymple
Manager/ Contributions & Claims

Mrs Ignatis Morgan
Systems Analysts

Mr Sylvester Mark
Senior Supervisor/Contributions

Mr Raymus Thomas
Supervisor Compliance

Ms Christabel Antoine
Senior Supervisor/Benefits

Appendix 13 (Con't)

List Of Interviewees

Ms Hermia Mason & Ms Felicia Butler
Senior Clerk/Contributions

Ms Aldith Lewis
Senior Clerk/Accounts

Grenada

Board Members – Current And Past

Mr Stanley Roberts
General Secretary Taxi Association/Member of the Board Representing Workers
P O Box 175, St. George's

Mr Chester John
Former Chairman of the Board
CLICO International Life Insurance Company
Young Street
St. George's

Mr Le Roi Robinson
Former Director
Grenada National Insurance Scheme

Mr Chester Humphrey
President General
Grenada Technical & Allied Workers Union
P O Box 405, St. George's

Executive Director

Mr Ashton Frame
Director (Ag)
Grenada National Insurance Scheme
P O Box 322, St. George's

Workers' Representatives

Mr Derek Allard
President General/Member of the Board Representing Workers
Bank & General Workers Union
P O Box 329, St. George's

Mr Andre Lewis
General Secretary
Grenada Technical & Allied Workers Union
P O Box 405, St. George's

Mr Dennis Thomas
Executive Officer
Grenada Union of Teachers
P O Box 452, St. George's

Appendix 13 (Con't)

List Of Interviewees

Employers' Representatives

Mr Justin Francis
Executive Director
Grenada Employers' Federation
P O Box 129, St. George's

Mr Christopher De Riggs
Executive Director
Grenada Chamber of Industry & Commerce
P O Box 129, St. George's

Ms Alice M Thomas-Roberts
Executive Director
Grenada Hotel Association
P O Box 440, St. George's

Employers

Mr Desmond DJ John
Managing Director
DJ's Bobcat & Construction Services
P O Box 279, St. George's

Mr Chris Warner
Sales & Marketing Manager
W. E. Julien & Co. Ltd
P O Box 76, St. George's

Mrs Helen Radix
Personnel Officer
Jonas Brown & Hubbards
St. George's

Mr Anthony Jagan
Human Resource Manager
Grand Beach Resort

Insurance Companies

Mr Chester John
Agency Manager
CLICO International Life Insurance Company
St. George's

NIS Staff Members

Mr Louis A. Williams
Accountant

Appendix 13 (Con't)

List Of Interviewees

Mr Dorset Cromwell
Actuary/Statistic and Research Manager

Mrs Janice Pierre
Human Resource Manager

Mr Alfred Logie
Manager Compliance

Montserrat

Board Members – Past

Mr C. T. John
Financial Secretary
Government of Montserrat
P O Box 292, Plymouth

Mr Winston Jemmot
Former Acting Director

Executive Director

Mr Kenneth Scotland
Director
Montserrat Social Security Board
P O Box 170, Plymouth

Workers' Representatives

Mrs Angela Skerritt
President
Montserrat Nurses Association
Cudjoe Head Clinic, Cudjoe Head

Mr Fitroy Martin
First Vice President
Montserrat Allied Workers Union
Plymouth

Me Easton Farrell
President
Public Service Union
Plymouth

Mr Gregory Jules
President
Montserrat Union of Teachers
Geralds

Appendix 13 (Con't)

List Of Interviewees

Mr Steven Foster
President
Montserrat Police Association
P O BOX 177, Brades

Social Security Staff of Montserrat Social Security Board

Ms Paulette Ward
Administrative Assistant

Ms Diane Kirby
Inspector

Mrs Joyce Chambers
Supervisor of Benefits

St. Kitts And Nevis

Minister

Mr Timothy Harris
Minister Responsible for Social Security
Basseterre

Board Members – Current And Past

Mr Anthony Gonsalves
Barrister-at-Law & Solicitor/Member of the Board Representing Employers
P O Box 449, Basseterre

Mr Michael Morton
Director/Former Member Of The Board Representing Employers
St. Kitts Nevis Anguilla Trading and Development Co. Ltd
P O Box 142, Basseterre

Mr Caines
Former Chairman
St. Kitts & Nevis Social Security Board

Mr Robert Manning
Former Director
St. Kitts & Nevis Social Security Board

Executive Director

Mrs Sephlin Lawrence
Director
St. Kitts & Nevis Social Security Board
P O Box 79, Basseterre

Appendix 13 (Con't)

List Of Interviewees

Workers' Representatives

Mr Stanley Franks
General Secretary
St. Kitts & Nevis Trades & Labour Union
Basseterre

Employers' Representatives

Mr Kishu Chandiramani
President
St. Kitts & Nevis Chamber of Commerce
P O Box 78, Basseterre

Mr Val Henry
Executive Director
St. Kitts & Nevis Hotel & Tourism Association
Basseterre

Mr Norris Martin
President/ Liamigua Taxi Association
Basseterre

Employers

Mr Oriel Hector
Chief Personnel Officer
St. Kitts & Nevis Sugar Manufacturing Corporation
Basseterre

Mr Thomas Williams
General Manager
St. Christopher Air & Sea Ports Authority
P O Box 963, Basseterre

Mr Scott Caines
Financial Controller
St Kitts Nevis Anguilla Trading and Development Co. Ltd
P O Box 142, Basseterre

Mr Theophilius Edwards
Plant Manager
St. Kitts Masonry Products Ltd
P O Box 142, Basseterre

Mr J. S. Rawlins
Head of Human Resources & Support
Cable & Wireless St. Kitts & Nevis Ltd
P O Box 86, Basseterre

Mr Valentine Monish
Manager – Human Resources
P O Box 45, Basseterre

Appendix 13 (Con't)

List Of Interviewees

Mr Clement Williams
Independent Taxi Driver
Basseterre

Mr Stanley Franks
Diamond Security
Basseterre

Mr Ken Perkins & John Mauby
Ocean Terrace Inn
Basseterre

Mr Charles Brisbane
O. D. Brisbane & Sons Ltd
Basseterre

Mr Richard Kershee
Carib Manufacturing Co. Ltd
Basseterre

Finance and Insurance Companies

Mr Ronald Philip
Manager
The Barbados Mutual Life Assurance Society
P O Box 835, Basseterre

Ms Nesta Seaton
Administration Manager
St Kitts-Nevis Insurance Co. Ltd
P O Box 142, Basseterre

Mr Faron Lawrence
General Manager
P O Box 1324, Basseterre

Staff Members St. Kitts & Nevis Social Security Board

Ms Angela Liburd
Internal Auditor

Mr James Bradshaw
MIS Manager

Ms Marilyn Johnson
Manager Finance and Accounts

Ms Joyce Fyffield
Accountant

Ms Angela Grey
Benefits Manager

Appendix 13 (Con't)

List Of Interviewees

Mr Steven McMahon
Manager Compliance

Mr Chesil Hamilton
Manager, Public Relations

Other Stakeholders

Mr Osborne
Former Sugar Factory Supervisor

Mr Warren Thomas
Former Sugar Factory Worker

Mr Martin Phipps
Sugar Factory Worker

St. Lucia

Board Members: Past

Mr. Francis Compton
Former Director
St. Lucia National Insurance Scheme

Executive Director

Ms Emma Hippolyte
Director
St. Lucia National Insurance Scheme
The Waterfront
Castries

Workers Representatives

Mr Lawrence Poyette
General Secretary
St. Lucia Civil Service Union

Mr Kentry Jn. Pierre
General Secretary
St. Lucia Teachers' Union
P O Box 821, Castries

Mr Michael Hippolyte
President
St. Lucia Seamen Union
P O Box 166, Castries

Mr Peter Fevrier
First Vice President
National Workers Union
P O Box 713, Castries

Appendix 13 (Con't)

List of Interviewees

Mr Modeste Downes
Vieux Fort Dock Workers Union
Vieux Fort

Employers' Representatives

Mrs Eileen Paul
Administrative Manager
St. Lucia Hotel & Tourism Association
P O Box 545, Castries

Mr Henry Phillips
Industrial Relations Consultant
St. Lucia Employers' Federation
P O Box 160, Castries

Employers

Mr Errol Charles
Human Resource Manager
Juliens
P O Box 279, Castries

Ms Elizabeth Clarke
Human Resources Manager
WASCO
Castries

Ms Judy Auguiste
Assistant Human Resource Officer
Sandals La Toc Hotel
Castries

Staff Members of St. Lucia National Insurance Scheme

Mr Lincoln Mathurin
Deputy Director

Mr Louis Augustin
Human Resource Manager

Mrs Realle Hypolitte
Manager Compliance

Mr Patrick Kallicharan
Statistician

Mr Desmond Dujon
Public Relations Manager

Appendix 13 (Con't)

List of Interviewees

St. Vincent & The Grenadines

Board Members: Current

Mr Creighton
Chairman
St. Vincent & The Grenadines National Insurance Scheme
P O Box 305, Kingstown

Executive Director

Mr Reginald Thomas
Executive Director
St. Vincent & The Grenadines National Insurance Scheme
P O Box 305, Kingstown

Workers Representatives

Mr Noel Jackson
General Secretary
National Workers Union
P O Box 1290, Kingstown

Mr Lanceford Weekes
President
St. Vincent & The Grenadines Civil Service Association
Kingstown

Employers' Representatives

Mr Leroy St. Rose
Executive Director
The St. Vincent & The Grenadines Chamber of Industry & Commerce
P O Box 134, Kingstown

Major St. Claire Leacock
President
St. Vincent & The Grenadines Chamber of Industry & Commerce
Kingstown

Mrs Dawn Smith
Executive Director
St. Vincent & The Grenadines Hotel & Tourism Association
Kingstown

Employers

Mr Junior Bacchus
Human Resource Manager
ECGS
Kingstown

Appendix 13 (Con't)

List of Interviewees

Mr Neville Greaves
C K Greaves & Co Ltd
Kingstown

Mr Lancelot Stevensson
Accountant
St. Vincent & The Grenadines Port Authority
Kingstown

Mr Ronald Bailey
Human Resources Manager
St. Vincent & The Grenadines National Commercial Bank
Kingstown

Insurance Companies

Mr Sam Goodluck
Manager
VINSURE
P O Box 210, Kingstown

Staff Members - St. Vincent And The Grenadines National Insurance Scheme

Ms Minerva Glassgow
Deputy Director

Mr Lennox Timm
Financial Controller

Mr Avil Harry
Senior Inspector

Appendix 14

Expenditure on Training By The Social Security Organisations In The OECS